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We have some major hurdles to overcome, and they're not technical ones. Energy costs will continue to rise due to the conditions over which our industry has no control...fuels, taxes and inflation. Decisions have been made at the state and federal levels that will force us to struggle to meet electric demand by the late 1980's. We are confident that we can overcome these problems and meet our responsibilities.

Annual Report for year ended December 31, 1979

Highlights	1979		1978		% Change
Common Stock					
Earnings per weighted average share	$2.14		$2.39		(10)
Number of shares (000's)					
Weighted average	15,354		14,187		8
Pro forma weighted average after stock dividend paid in following year (See Note)	15,815		14,613		8
Actual number at December 31	15,555		14,733		6
Number of shareholders	48,543		48,148		1
Price range (Sales on New York Stock Exchange)	*High*	*Low*	*High*	*Low*	
1st quarter	18⅜	16¾	21½	17⅞	
2nd quarter	17⅝	15⅜	18⅞	17⅝	
3rd quarter	17	16	19⅜	18	
4th quarter	16	14½	18¾	16½	
Cash dividends paid (100% taxable)					
1st quarter	$.36		$.35		
2nd quarter	.36		.35		
3rd quarter	.37		.36		
4th quarter	.37		.36		
Stock dividend paid (See Note)	3%		3%		
Sales and Revenues					
Electricity to customers					
Kilowatt-hours (000's)	5,163,520		5,102,923		1
Revenue (000's)	$219,373		$202,631		8
Electricity to other utilities					
Kilowatt-hours (000's)	1,526,925		1,445,391		6
Revenue (000's)	$ 37,804		$ 28,676		32
Gas					
Therms (000's)	426,743		433,324		(2)
Revenue (000's)	$140,527		$118,531		19
Steam					
Pounds (000's)	2,792,170		2,963,500		(6)
Revenue (000's)	$ 19,988		$ 19,110		5
Total revenues	$417,692		$368,948		13
Operating Expenses (000's)					
Electric and steam fuels	$ 61,071		$ 58,140		5
Purchased electricity	31,937		19,337		65
Purchased natural gas	89,804		71,109		26
Wages and benefits	59,689		54,390		10
Depreciation	23,703		22,206		7
Taxes—local, state and other	49,916		45,935		9
Federal income taxes charged to operations	6,746		11,041		(39)
Other expenses	42,704		37,541		14
Total operating expenses	$365,570		$319,699		14
Capital Expenditures, less allowance for funds used during construction (000's)	$111,427		$112,552		(1)
Net Utility Plant at December 31 (000's)	$893,531		$810,016		10
Number of Employees	2,661		2,622		1

Note: The 21st annual stock dividend was paid February 25, 1980 at the rate of three percent.

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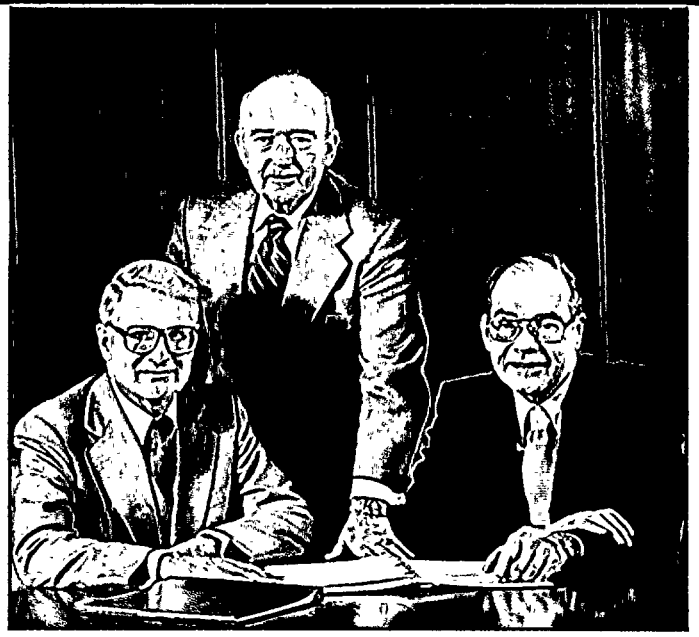


Paul W. Briggs *Francis E. Drake, Jr.* *Keith W. Amish*

To Shareholders:

Although total revenues for 1979 were up 13 percent from the previous year, earnings per share of common stock were down by ten percent, going from $2.39 in 1978 to $2.14 in 1979, a decline of 25 cents per share.

A number of diverse factors contributed to the decline in earnings. Customer conservation efforts remain strong and effective. Kilowatt-hour electric sales increased only 1.2 percent over 1978. Sales of natural gas in therms declined by 1.5 percent from the previous year despite the addition of nearly 6300 new gas space heating customers in 1979.

The Ginna nuclear power plant was out of service from July 6 to August 4 as a result of a Nuclear Regulatory Commission general bulletin that called for the inspection and modification of certain high-pressure piping. This outage, and a two-week shut-down in December to repair a steam generator tube leak, caused greater-than-normal maintenance costs. We also had to increase our own purchase of electricity due to these unscheduled outages. Under current rates, not all of the cost of this replacement power could be recovered.

We still believe that the Ginna plant is one of the finest operating nuclear plants in the nation. Even considering the two outages, the Ginna plant had a 72.8 percent availability for the year, saving electric customers more than $30 million from what the fuel cost of coal-fired generation would have been. In its ten-year history, the nuclear plant has been available a high 74.5 percent of the time.

Inflation continues to have a major influence on earnings and expenses. Inadequate rate relief and the weakened economic environment in New York State also contribute adversely.

We have tried to communicate with our shareholders, the public, regulators and government officials on the problems that face us, our customers, investors, and business in general. While these discussions serve a purpose in creating an awareness and recognition of the problems, awareness does not provide solutions. Most of the adverse factors are beyond the control of the Company, and certainly beyond the control of our investors and customers. Inflation continues, fuel costs escalate, government deficit spending remains unchecked, and governmental regulation becomes more and more restrictive and burdensome.

Our prolonged effort to license a nuclear power plant near Sterling, New York came to an end on January 23, 1980 when the New York State Board on Electric Generation Siting and the Environment rejected the project.

After nearly five years of proceedings, during which we received state certification for the plant, only to have that decision suspended, we felt it useless to appeal the decision on what has become a political issue in an emotionally charged environment.

We have taken steps to protect the shareholders' interests in this matter, and a petition has been filed with the New York State Public Service Commission (PSC) for permission to write off the Sterling costs and to recover the expenses through rate relief. RG&E's share of these costs is $25 million plus cancellation charges for contract terminations. Unfortunately, it is the customer who is adversely affected by the Siting Board's decision to disallow Sterling. The nuclear plant would have provided the least costly electric energy. Now we must view the more expensive options while proceeding with our determination to pursue every course to ensure that our customers will continue to have energy when they need it.

The number of employees increased by 39 for a total of 2661. The increase was primarily due to the burden of additional regulatory requirements. Productivity of our employees remains high and we can again report that RG&E had the least number of customer complaints recorded by the PSC.

Capital expenditures in 1979 amounted to $111.4 million, excluding Allowance for Funds Used During Construction. A total of $37.7 million was applied to the cost of additional electric generating capacity. Expense for the Sterling project amounted to $4 million, and $10 million was spent for RG&E's 24 percent share of Niagara Mohawk Power Corporation's Oswego #6 oil-fired power plant which became a commercial operating unit in March 1980. We will be using our share of the oil-fired capacity for peaking purposes and for sales to other utilities. We spent $23.7 million in 1979 for our 14 percent share of Niagara Mohawk's Nine Mile

Point #2 nuclear power plant which has been rescheduled to be operational in 1986. This later operational date will not affect RG&E's ability to meet customer electric demand.

In an April 1979 decision on our electric and gas rate increase request that was filed in May of the previous year, the PSC allowed the Company little more than half of the total dollar amount requested, or $25.8 million of the $48.7 million sought. We were forced to file a request for additional increases in August 1979. This current rate case that we expect will be decided in July 1980, seeks a total of $49.1 million, including the $23 million deficiency from the previous rate case decision. This represents a 17.0 percent increase in electric rates and a 4.4 percent gas rate increase.

In July 1979 RG&E sold $25 million in preferred stock, and in August it sold $10 million in tax-exempt pollution control revenue bonds. During the fourth quarter a private placement of $55 million in first mortgage bonds had been accomplished at 10.95 percent interest with delivery of the bonds in February and May 1980. Proceeds from these securities are being used to pay off short-term bank loans incurred in the Company's construction program.

The Company's Automatic Dividend Reinvestment Plan now has 20.1 percent of holders of common stock participating. During 1979 the participants invested $5.0 million in 309,747 new shares of common stock.

We were pleased to increase the Common Stock annual dividend rate from $1.44 to $1.48 in July 1979. This increase, coupled with the dividend paid on shares issued as a result of the stock dividend, raised the total cash dividend paid in 1979 by 5.8 percent.

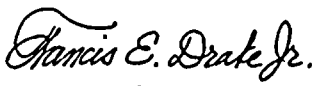
Notwithstanding the lower-than-anticipated electric load increase in 1979, we are anticipating a two percent gain in kilowatt-hour sales in 1980. By comparison with other locales in New York State, RG&E's service area remains one of the most active economic growth territories. Proposals have been made to renovate major portions of downtown Rochester with the creation of a cultural district, construction of a modern convention center, new office buildings, and a major museum that is already under construction. The Chamber of Commerce maintains an active file of firms that have expressed interest in locating or expanding facilities in Monroe County. From August 1978 through the end of 1979, more than 90 firms relocated or expanded in Monroe County alone.

The natural gas supply remains adequate and the number of gas customers will increase. We expect to add as many as 6000 gas space heating customers in 1980. While customer conservation efforts will continue to limit growth in residential sales, we forecast significant growth in commercial and industrial gas sales that are estimated to result in an overall 3.3 percent increase in gas sales.

Expenses will continue to rise through this year. Taxes are estimated to increase by 18 percent and fuel expense and the cost of materials will continue to increase in 1980. On the other hand, capital expenditures, one area where we can exercise some degree of control, are forecast at $99 million, down from the $111 million spent in 1979, an 11 percent decrease.

The inflationary spiral appears to be continuing unabated. More and more people are becoming aware of the nation's economic and energy problems and the forces that, perhaps unwittingly, produce and perpetuate them. We believe that more people are becoming concerned about the extent of government regulation and its effect on the cost of goods and services to the consumer. Because of the focus of attention on the economy, we believe that people are becoming better educated in the principles of economics as they apply to the free enterprise system, and are voicing legitimate concern about that system's future.

In the following special section of this report, we and other corporate officers discuss certain factors influencing our industry. In interviews we talk about how things have changed, what we have done and what we are doing to meet these changes. We hope you will take the time to read these brief assessments from your management.



Francis E. Drake, Jr.
Chairman of the Board and
Chief Executive Officer

Paul W. Briggs
President

Keith W. Amish
Executive Vice President

March 14, 1980

In its 132-year history as a public utility, RG&E's responsibilities and obligations to its customers, its shareholders and its employees have remained unaltered. Yet, in the last few decades the industry has changed significantly. The changes, the influences and outlook can best be told through the words of senior corporate officers—the people who have grown with RG&E and who are now responsible for its operation and management. The following statements of management were extracted and condensed from personal interviews that focused on the individual concerns of these corporate officers.

March, 1980

The energy business is changing. From an era of unlimited, inexpensive energy, we have entered a period where cost is going up and availability is going down. There are many reasons for this change, but it would serve no useful purpose to dwell upon them. It is more important to find a solution for the critical energy problems.

The solution does not rest with any magic formula. It will not be solved by transferring production or marketing of energy from the private sector to government. England tried that approach and it was a miserable failure, as evidenced by the plight of the British economy today.

No, the solution rests with a coordinated energy plan. Of necessity it will involve conservation and the use of all forms of energy, including solar, coal and nuclear. And, with time running out, conservation could be the key element in carrying this nation past the period of political indecision that has contributed significantly to the shortages. Vacillation and reluctance to face facts and issues at federal and state levels have aggravated the problem.

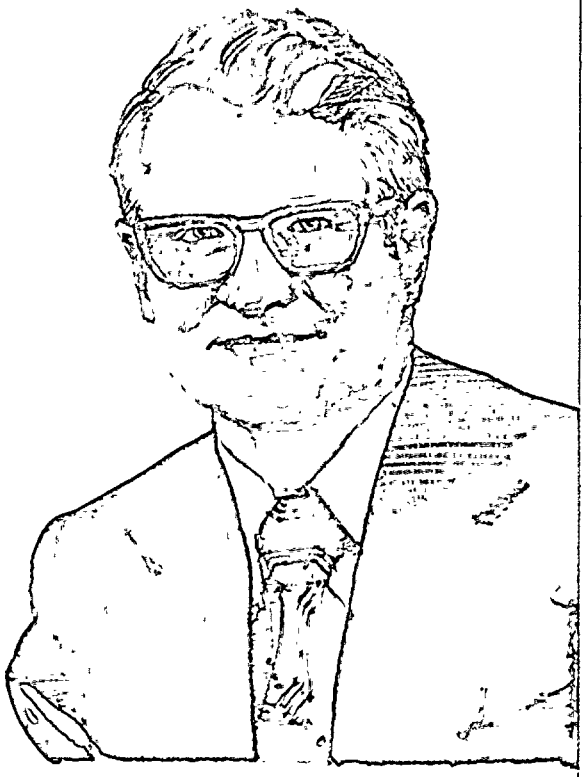
As a converter of raw energy into versatile electricity, and as a distributor of that premium fuel, natural gas, RG&E has a particularly important role in the changing energy picture. We do not promote the greater use of our products. Rather, we encourage efficient use and we try to help the consumers realize that it is to their advantage to invest in energy-saving facilities.

No longer do we have a wide range of raw fuels to choose from in the production of electricity. In spite of the wishful thinking of some, we must depend upon coal and nuclear energy for the major part of our requirements in the foreseeable future. Fortunately, we have adequate supplies of these fuels in the United States—if we use them wisely.

And so, as we enter a new phase in providing energy for our franchise territory, it is important that we recognize the changing rules under which we operate, as well as the new opportunities we have to meet our customers' needs. Yes, the price of each unit of energy will go up, but if we and the consumer do our jobs properly, electric and gas energy, served by the private utility industry, will continue to be the best bargain in the consumer's budget.

Francis E. Drake Jr.

Francis E. Drake, Jr.
Chairman of the Board and
Chief Executive Officer



In the 1970's several significant financial changes were brought about in our Company, and in the entire utility industry for that matter. Unfortunately, many of the changes have been negative. While we have continued to operate well, and have been able to effect significant efficiencies, inflation and lower growth rates have put heavy financial pressures on us.

Construction costs and the cost of capital have increased tremendously. At the same time, the PSC [Public Service Commission], under consumer pressures, has not been fully recognizing these costs in its rate decisions. Rate relief has been inadequate and, further, we have been unable to earn even the PSC's authorized conservative return on common equity. We haven't earned the allowable return in ten years, and usually have fallen short by two to three percent. Interest coverage has dropped, as has the ratio of average market price to book value of common stock, and our cash flow is not as strong as it was ten years ago.

To help offset at least some of these adverse influences, our major financial strategy has been to increase the proportion of common stock in our capitalization structure to the 40 percent range. This move recognizes the fact that our industry involves more risk today than it has in the past. The idea was to lessen the debt burden and the interest costs which accompany it. This has worked and it has helped us to significantly increase our dividend payment and maintain what we feel is a very valuable stock dividend policy—valuable to both the shareholder and the Company.

Today I believe we are in a sound financial condition, fully capable of meeting the financial challenges of the 80's. We look for a continued high inflation rate in the 80's and, at the same time, we are anticipating a significantly lower rate of load growth—so we have our work cut out for us in financial planning. Two major efforts will highlight our plans. First, we will carefully review our construction program to reduce expenditures. When we are faced with high construction costs and cost of money, one effective way to ease the burden is to cut back on construction, where possible. Second, we will redouble our efforts to obtain adequate rate relief. We must get our message across that the regulatory decisions have not fully recognized the absolute need. With some success in these efforts, coupled with continued operating efficiencies, we should have no problems in meeting our financial needs, which include an effective dividend policy.

Paul W. Briggs

Paul W. Briggs
President

The basic responsibility of a utility has always been to assure an adequate supply of energy to meet its customers' needs at a reasonable cost. Meeting this responsibility has become increasingly difficult and complex because of the tremendous upsurge in specialized peripheral issues raised by various outside groups. At times, it seems as if some of these issues receive more attention than the basic supply problem. Certainly, there are valid concerns that must be addressed in determining the best course of action. However, I think the important thing to remember is balance. While the scales have been tipped toward non-economical energy as a result of overly-cautious environmental concerns in recent years, I believe equilibrium is being restored.

The decline in electric load growth in the mid-1970's was lucky in a way, because, in light of the regulatory delays, we would not have been able to supply the additional loads that would have developed at historic growth rates. We would be in trouble already rather than just anticipating shortfalls in the late-1980's. With a seven-year plant construction period, we have lost the ability to rapidly respond to any higher-than-projected demands.

Load growth of four to five percent could easily develop in the mid-1980's. But, if we can't get approval for a plant until the 1982 or 1983 period, a shortfall is bound to occur. We will have to have rationing, brownouts and similar emergency measures in order to survive until the capacity can be added. If the state really wants to make an economic turnaround, I think it has to be very careful that it doesn't get into a situation where industry will not expand in New York because of the lack of sufficient electric power.

One of the things that's always bothered me is that while RG&E uses almost no oil for generation of electricity, 60 percent of the electric capacity in New York State is oil-fired. Fortunately, the more efficient generation, nuclear, coal, and hydro can be used more heavily so that we are able to hold the oil-fired generation in the state down to 45 percent of the electric energy supply. Most of the oil burned in southeastern New York is imported oil from the Arab countries. I just don't understand today why we, as a nation, continue to talk about the oil problems, but do not take more positive steps to reduce our dependence on foreign oil.

Certainly there are major problems facing us as a utility. America, itself, and its people have problems to face in the 1980's. But, I can't think of any problem that is insurmountable. I have full confidence that RG&E will effectively meet its responsibilities. I'm equally confident that the nation will come to grips with its problems in the 1980's. We've done it before, we can do it again.

Keith W. Amish

Keith W. Amish
Executive Vice President

"The gas supply situation is looking better. Higher prices have increased the options of the producers to recover gas from many areas that were not economically feasible before, such as tight sandstone formations, geopressurized zones and deep drilling on-shore and off-shore. The experts know there is ample gas in these areas and that it is mostly a matter of getting to it. The higher market price will promote the technology to bring the gas from these areas into the marketplace.

We don't want to become dependent on foreign sources, but we cannot rely strictly on domestic sources either. There has to be a logical mix. It boils down again to price. If gas out of tight sandstone here costs $4 per million BTU's and you can import gas for $3.50, it's very logical to keep importing, and obviously the contrary also holds true.

Don't be misled when you hear of a ten-year supply of natural gas. This is the proven reserve which is the calculated volume of gas in fields currently under production. It does not take into account new discoveries, new fields or extension of existing fields. The total of the proven reserves and the potential supply will last more than 60 years at the current rate of use. And when unconventional and synthetic pipeline gas from oil shale and coal become available in the near future, at a competitive cost, there will be ample gas for many years to come.

One of the advantages the gas industry has is its underground pipeline system. This nationwide piping network delivers gas from the wellpoint to the consumer, with virtually no impact on the environment. Right now it delivers more energy than all the railroads combined. This pipeline system can handle more than natural gas. The future gas that will be produced from coal gasification or from oil shale can also be transported by the same network. The piping system in our franchise area supplies 210,000 customers, of whom 160,000 heat with gas. Imagine the impact on traffic if all these homes were supplied from oil trucks or coal cars!"

Joseph J. Hartman

Joseph J. Hartman
Vice President
Gas and Transportation

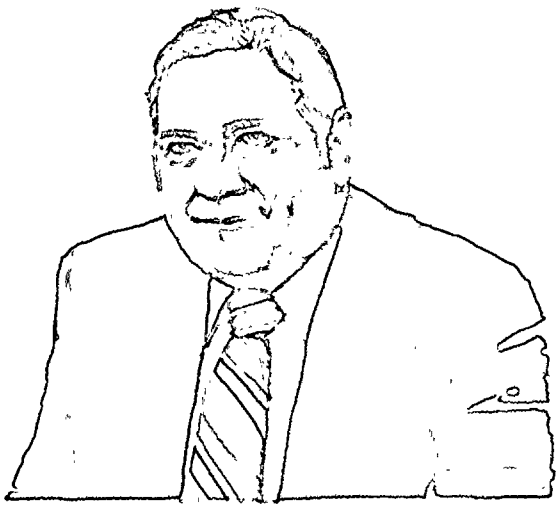
"An old adage says that history repeats itself. That is certainly true insofar as a utility company's rates are concerned. Forty years ago, when few people concerned themselves with fuel supplies or environmental matters, multiple rates were offered to promote the use of energy for innovative appliances and new applications. The advent of more efficient electric generating equipment, the interstate natural gas pipeline system and other technological advances steadily reduced the cost of energy during the 1950's and 1960's. Fewer rates became the order of the day, and administrative costs were reduced as a result.

Today, with the ever-increasing costs of fuel, taxes, interest, labor and regulatory requirements, there is a trend emerging to revert to a multiplicity of rates. But now, instead of attempting to promote use, the object is to promote more efficient use. Multiple rates will be offered to reflect more precisely the cost to serve a customer at the time that customer is demanding the service. The rates will be designed to encourage customers to use energy in a manner which, by lessening the need for new capital, will lessen capital expense and costs to the customers and shareholders.

Another adage says that everything is relative, and that applies to the cost of electricity and gas. While the cost of a kilowatt-hour of electricity today is twice as much as it was ten years ago, it is about the same as it was 40 years ago. Technology reduced costs after World War II, but inflation and the Oil Embargo in the early 1970's offset those reductions. The cost of natural gas in therms has more than doubled since 1970, and has tripled over the last 40 years. Virtually all of that increase, though, is a result of fuel costs boosted by OPEC influences and the government's recognition that the price of gas must be allowed to rise to meet competitive fuel costs and ensure future supplies through encouraging exploration. Interestingly enough, and despite the events of the last 40 years, the portion of a production worker's wages required to pay the typical gas and electric bill is about the same today as it was in 1940—only five percent of gross wages."

John L. Kennedy

John L. Kennedy
Vice President
Rates and Governmental Affairs



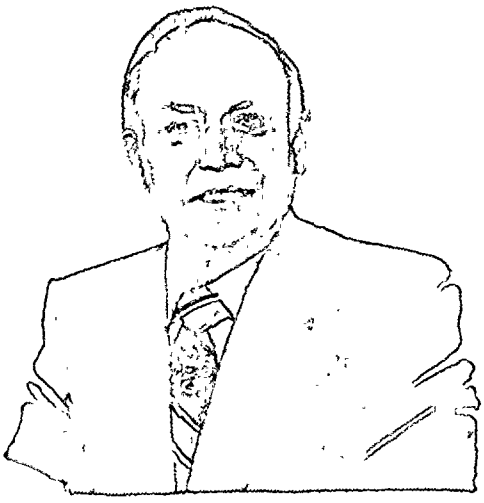
Our Company or any company functions through its employees. Take away the people and there is no one for management to manage, nor anyone to serve customers and operate and maintain the sophisticated equipment. Hiring and retaining good employees is the main responsibility of the Employee Relations Division. I look at that responsibility as the most important in the Corporate structure. One of the key indicators of how successful we are in meeting this assignment is our turnover rate which, I am pleased to say, approaches zero.

To maintain this position, we constantly review policies and procedures with an eye towards improving them to provide for the changing needs of the employee. The current benefit package is, on an overall basis, competitive with all industry as is our wage and salary structure. The RG&E 'promotion from within' policy and the significant increase in the mobility of employees through cross-training, lateral transfers, and departmental changes, all tend to improve job satisfication and productivity. A tuition assistance program enables us to actively recruit our own employees for future managerial and professional positions.

We are looking at an exciting future with increased emphasis on training and communications, coupled with some innovative approaches to employee benefits. Individual needs are certainly different, and we expect that our employees will effectively help design their own personal benefit plan to meet their own specific future needs.

John E. Maier

John E. Maier
Vice President
Employee Relations



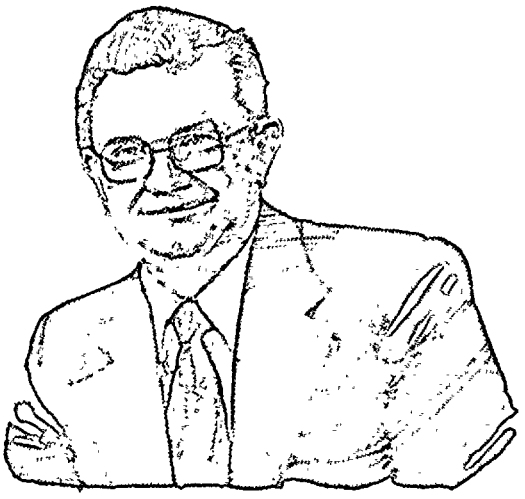
Even though our system reliability is very good we want to improve our sensitivity to customers' needs. We've improved our handling of routine service requests to the point where we can now be sure that the customer gets an adequate answer to a specific problem. We're one of the few industries where the customer can still call, right through top-level management, and get personal attention.

Planning of the distribution system to accomplish greater reliability is much more difficult now than it was in the past. The present cost of capital precludes the construction of distribution facilities in advance of a proven need to meet load growth. Today's demands are for innovative use of capital to serve the customer on schedule and with the minimum addition of equipment. These factors are constantly taken into consideration as we determine today's priorities.

You have to recognize that in order for things to happen, such as better planning, greater emphasis on priorities and better use of capital, you have to make sure that your people are committed to this philosophy. The management team of the Electric Transmission and Distribution Division has been trained to use concepts from all levels within the organization and implement them constructively. I can say with great certainty that our people are committed to the goals of better service and better use of capital through greater emphasis on training, scheduling and evaluation.

Richard J. Rudman

Richard J. Rudman
Vice President
Electric Transmission & Distribution



"The most significant change I see in the electric planning area is the inability of man to predict the future with the accuracy he could in the past when conditions were more stable. At one time we had more confidence in predicting the future because there was a history of steady growth for 30 years. Then came the Oil Embargo, astronomical increases in the price of raw fuels, and the uncertainties of a shaky economy.

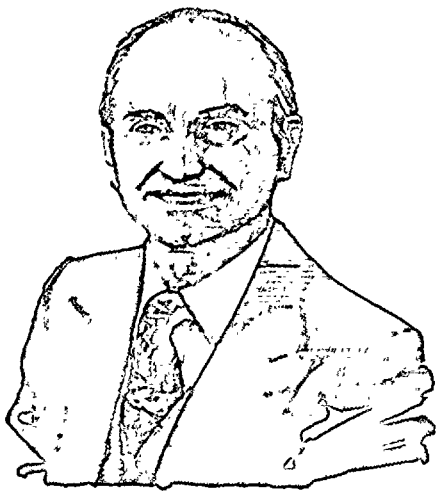
In addition to the clouding of the forecasting horizon, environmental concerns and related legislation have further complicated the system planning task. Through regulation, power plant licensing and construction times have doubled and, therefore, there has been a doubling in the risk of whether or not a plant will be brought on in time to meet the demand, and within the anticipated cost. You can't add units of generation instantly. For example, an OPEC oil embargo could shut off the oil supply tomorrow. In the case of New York State, where half of all electric generation is oil-fired, it would require at least seven years to compensate—even if we got immediate licensing relief from the regulators. Similarly, if nuclear power plants were closed tomorrow, it would be at least ten years before alternate generation sources could be placed in operation.

Adequate, reliable, non-oil-fired, economic generation must be available to support economic growth in New York State. If utilities are allowed to continue their joint planning process and their systematic review of requirements, there's no reason why the existing structure in the New York State private utility system will not be able to provide the generation required to accommodate healthy growth.

Our goal at RG&E is to retain as much flexibility in our plans as we can while providing economic electric power in sufficient quantities to sustain growth. I think we can do that despite the adversities."

Harry G. Saddock

Harry G. Saddock
Vice President
Electric System Planning & Operation



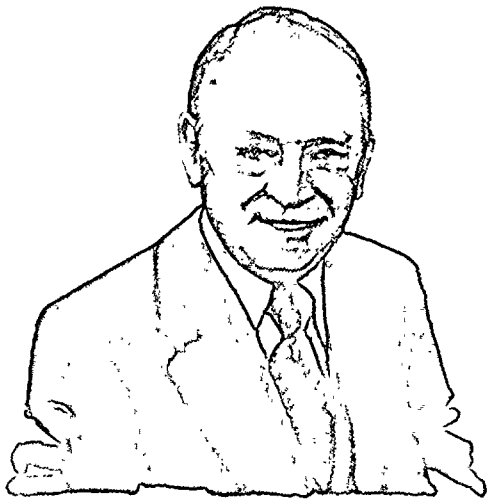
"I think the next 10 to 15 years are going to be difficult ones for the country as a whole and for the utility industry. As a nation we're in the process of trying to balance a lot of concerns, including concern for the environment, concern for safety, concern for the price of energy and concern for how much energy we use. When it comes right down to it, we're really trying to decide what kind of country we want to be. It's going to take a decade or two to work out a balance among the concerns.

Providing energy in our country has become a political problem rather than a technical problem. Government interference has been a prime factor in causing our present imbalance of energy supply and demand. A lot of effort will have to go into resolving our energy problems. Whatever is done will unfortunately have to come about in a politically-charged atmosphere—a highly emotional type of environment.

The issues resulting from this type of environment generate a great deal of debate and, unfortunately, a great deal if misinformation. To help deal with the confusion that has been created by special interest pressure groups and bureaucracies, we have moved to strengthen our communications efforts. A public affairs department has been formed by merging three divisions; public relations, government and community relations, and consumer relations. As part of its multi-faceted responsibilities, the new department will focus its efforts on 'setting the record straight.' The department's personnel deal with the news media, customers, elected officials, community leaders, social services agencies and business and industry in providing information and responding to questions."

Mario Silvestrone

Mario Silvestrone
Vice President
Consumer Services, Public Affairs and Purchasing



In my experience, from the post-World War II period to the 1970's, we were able to go about our business of producing power as needed and on an economical basis. We have provided a reliable service, planning and supplying power as it was needed, and without the furor that's going on today. It used to be that from our own studies we decided what capacity we would add and when. We never built a plant we didn't need. They came in on the line on time and they're all in full use today. But as I see the growing regulatory intrusion and oil dependency, we're really not in any position today to consider declaring obsolete any plant units that we have.

With reference to our nuclear plant and regulators, what is 'safe' has never been defined. As the regulators change, the concept of what is 'safe' changes. We've been faced with these changing requirements and their resulting plant modifications, and we're going to continue to be faced with them. Of course, we keep up with the changing standards and the large expenditures that automatically follow.

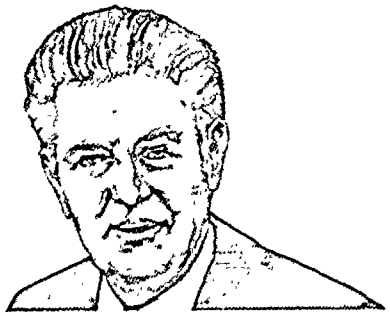
If you take a pessimistic attitude about the future of New York State, then I guess we wouldn't have to build any more capacity than is being built now for the decade of the 1980's. But, if you feel that New York State can offer more to attract industry and jobs, then obviously the state's own 2.1 percent annualized load growth forecast through 1995 is too light. And, under the present system of getting permission to add capacity, we may fall short of the needed power by the time any plants can be built.

It bothers me that we are not energy independent. It really bothers me. We've got to cut foreign imports of energy, oil particularly.

I think the next 20 years is going to be a very difficult period.

Leon D. White, Jr.

Leon D. White, Jr.
Vice President
Electric and Steam Production

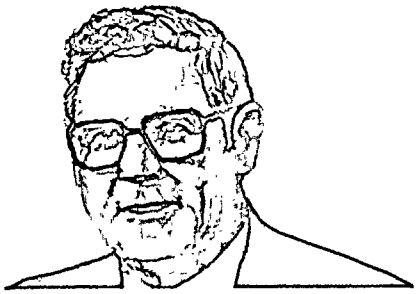


The Company is continually building and replacing plant and equipment to maintain reliable service. Revenues from the customers do not provide sufficient funds for this purpose. We are constant borrowers in the short- and long-term money markets to obtain the additional money. The current period of double-digit interest rates presents a challenge in obtaining the money at the lowest cost. The Company's history of sound, conservative financial management affords us strong relationships with 12 major banks, permitting us to obtain funds directly from the banks or from other lenders through the sale of commercial paper. In either instance we borrow at the lowest costs obtainable. Our use of the short-term money market also gives us flexibility in timing our long-term financings.

We will continue to diligently manage the Company's finances to provide the strongest possible protection for the shareholders' investment.

Dean W. Caple

Dean W. Caple
Secretary and Treasurer



Financial reporting today is certainly more complicated than it used to be. Today our accounts include deferred taxes, investment tax credits, deferred gas costs, accelerated depreciation, and a myriad of ever-changing and sometimes contradictory reporting requirements that grow in number each year. The intent, whether it be a government requirement or another internal standard of the accounting profession, is to give the reader more information. On the whole, I think it's good to have that information available. And, I think the more intricate requirements have been good for our department. It's not 'bookkeeping' anymore. We really have to get into the inner-workings of accounting today to make sure we're doing the right thing by the Company, the investor and the customer.

Francis A. Sullivan, Jr.

Francis A. Sullivan, Jr.
Controller

Electric Operations

Power Control A fully computerized power control system has been installed at the electric load dispatcher's office. Under the direction of the load dispatcher, the system monitors RG&E's generation and transmission operations and coordinates data with the New York Power Pool and New York State power companies through an advanced, electronic communications network.

Using computer consoles, skilled operators directly monitor the current status of electric transmission and distribution. The new system provides operators with centralized remote control of major field equipment that allows them to immediately initiate voltage reduction and load-shedding procedures in emergencies. The computer constantly scans its remote terminal units and displays critical information on power plant status, generator outputs, and circuit breaker or switch positions.

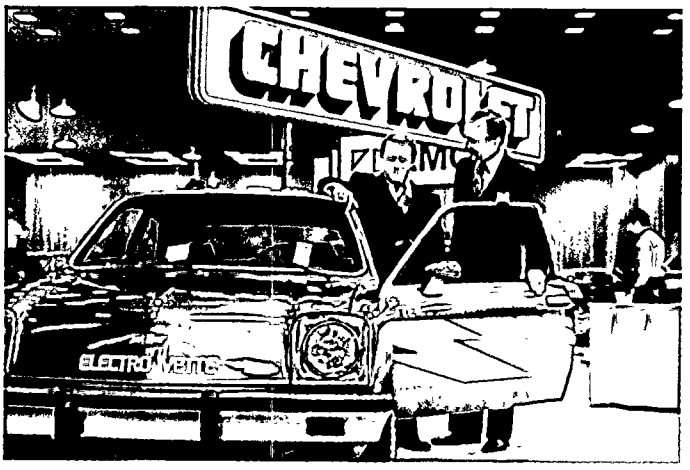
Among the system's many features is its ability to provide instantaneous data in helping the load dispatcher select the most economic generation, and to assist in making decisions for selling and buying power. The system provides more economic and reliable service for customers.

Transmission Certification for a proposed 12.5 mile, 115,000 volt transmission line from the Town of Ontario eastward, along an RG&E-owned railroad bed to a point west of Sodus, New York is expected early this year. The line is scheduled for 1982 operation and is designed to improve reliability and accommodate growth in that outlying district.

Distribution The first phase of a computerized Distribution Construction System was completed in 1979. The system automates material specification and field accounting for construction activities, thereby improving accuracy and efficiency. In 1980 the system will be expanded to include field reporting of work in progress.

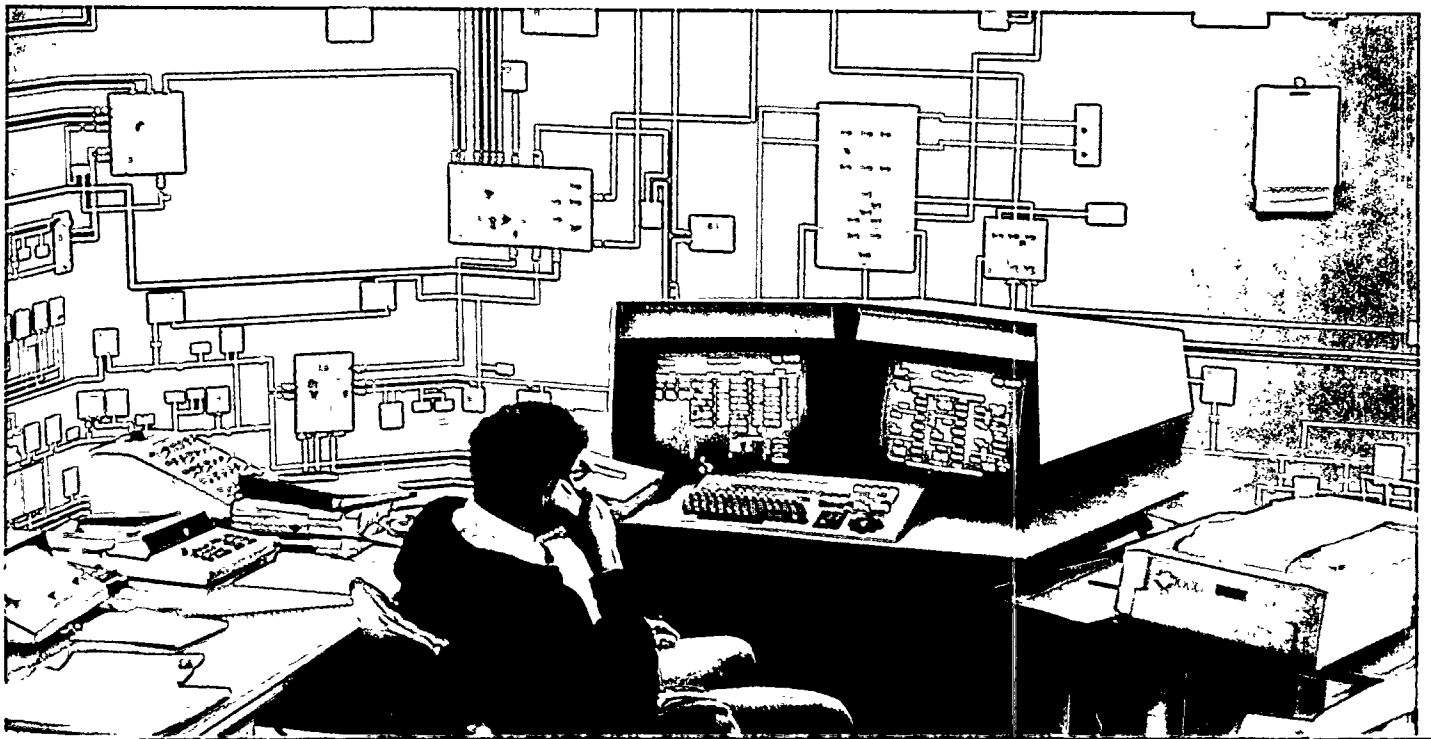
Clean Water In 1979 one wastewater treatment facility went into operation at Beebee Station and a pretreatment facility is under construction at Russell Station. The facilities, costing $6 million each, are purifying systems that treat water from the ash handling system, boiler water treatment wastes, coal pile run-off and equipment maintenance washes.

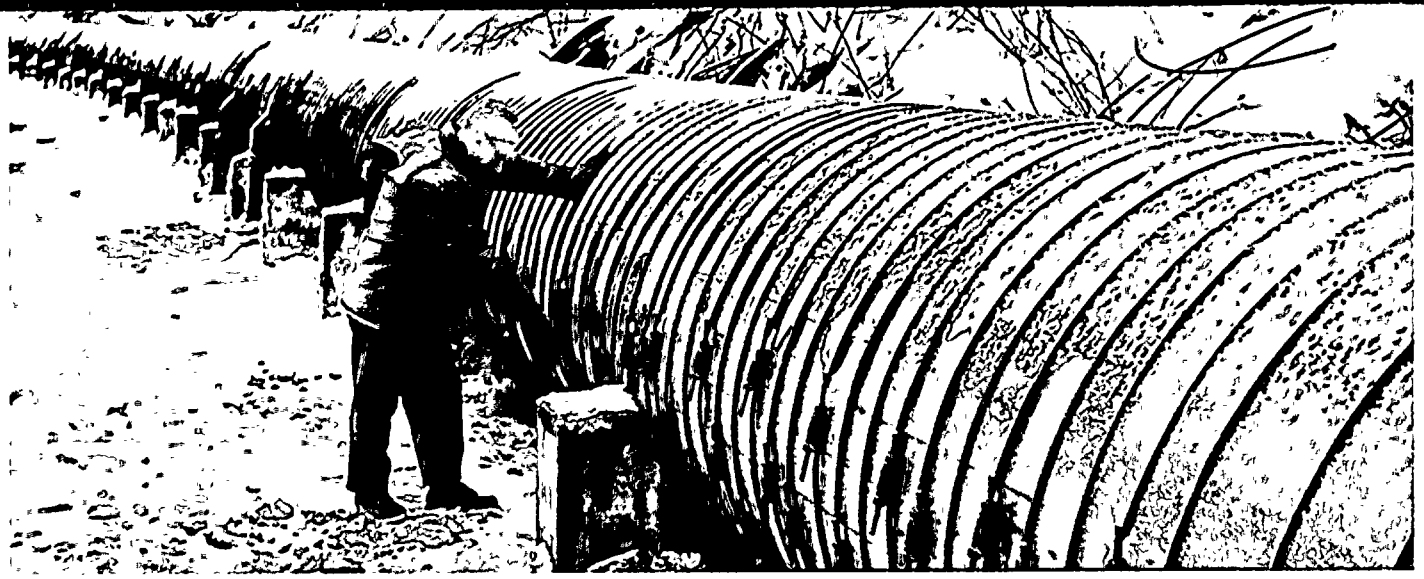
The Beebee Station unit can purify up to 700,000 gallons a day for discharge back to the Genesee River—cleaner than when it was taken out. The Russell Station unit can handle 1,000,000 gallons daily for transport to a county-owned facility.



At the New York Auto Show, General Motors vice president and general manager of Chevrolet Motor Division, Robert Lund (right), shows an RG&E engineer the interior of GM's experimental electric vehicle, Electro Vette. Using zinc-oxide batteries that can be recharged overnight from household current, the modified Chevrolet Chevette can run 100 miles on a charge at speeds up to 50 miles per hour. It may take time before significant numbers of internal combustion engines are replaced by electric motors, but electricity will become a growing part of transportation's future and a factor in electric load growth.

The console pictured below is part of the computerized system installed in 1979 that allows RG&E operators to select the most economic electric generation. The system maintains constant communications with the New York Power Pool, other utilities, and each of RG&E's power plants. Reliability of service is improved by this system that can instantaneously effect voltage reductions and shed loads in emergency situations.





Sometimes the old way is still the best way. This large wooden pipeline, built in 1921, was completely renovated in 1979 using the original technology. Wooden construction was retained because of the inaccessibility of heavy equipment to the site. This penstock carries water to RG&E's Wiscoy hydro station south of Rochester.

Gas Operations

Gas Supply Under contract with Consolidated Gas Supply Corporation, RG&E's supply of gas is sufficient to serve existing and projected customer demands. The proven gas reserves increased during the past year, particularly the domestic reserves in Louisiana, Texas, and Appalachia. Our supplier's reserves are equal to 17 times the gas sold during the year, one of the highest ratios in the industry.

Conservation Despite the increase in new gas customers, overall gas sales have declined. This is due primarily to effective conservation and more efficient gas use by residential heating customers. In the last decade annual residential use per customer declined 15 percent, offsetting gains from the increased number of residential heating customers. A total of 6,290 gas space heating customers were added in 1979, and 80 percent of those were conversions from other fuels.

Conservation has also had an effect in the commercial and industrial segments of the market. However, the substantial new loads added in 1979 in those markets have slowed the downward trend in total gas sales. Typifying these added gas loads are a number of food processing plants in Rochester and in the fruit belt along Lake Ontario, heavy industrials including foundries, manufacturers of machine tools and glass products, and colleges, universities, public and private schools. These customer additions have been made with minimal capital requirements.

The full effect of these added loads will be felt for the first time in 1980, and it is expected that gas sales will grow 3.3 percent during the year.

Research and Development

RG&E invested more than $3 million in research and development in 1979. Projects under direct Company sponsorship and control included research on an experimental protective relay that will automatically deenergize fallen 12,000 to 15,000 volt electric power lines. Feasibility studies were undertaken on the use of compressed natural gas in some Company vehicles to reduce gasoline consumption. From an environmental standpoint, RG&E continued to evaluate the impact of power plant warm water discharges on aquatic life. Another Company project involved the use of radio-controlled domestic water heaters in customer homes. The experiment was designed to provide data on the effectiveness of residential electric load management.

Research continued on the use of refuse derived fuel (RDF) at the Russell Station coal-fired generating plant. RDF is a combustible, paper-like product which has been mechanically separated from refuse and which can be burned in conjunction with pulverized coal in boilers. It is expected that the Company will begin regular use of RDF from Monroe County's refuse recycling center by mid-1981.

More than half of RG&E's research and development fund was applied to energy-related research projects conducted by industry-sponsored organizations such as Electric Power Research Institute (EPRI), Empire State Electric Energy Research Corporation (ESEERCO), and Gas Research Institute (GRI). One of the important technologies developed by EPRI was an improved means of inspecting the thousands of tubes that go to make up nuclear steam generators. A multi-frequency eddy current examination is employed to detect potential tube failures, thereby minimizing costly tube failures during operation. We will again use this technique during the 1980 refueling, maintenance and inspection shutdown at the Ginna nuclear power plant.

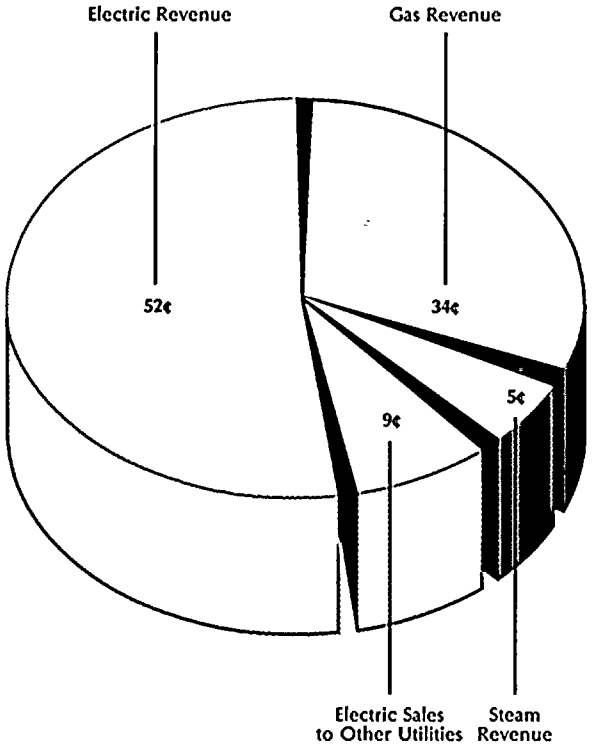
Directors

In December 1979 RG&E's board of directors elected Theodore J. Altier and Theodore L. Levinson as directors. Mr. Altier is chairman and treasurer of Altier & Sons Shoes, Inc., a group of 19 retail shoe stores in Rochester, Buffalo and Syracuse. Mr. Levinson is president and chief executive officer of Star Supermarkets, Inc., a retail food chain of 41 supermarkets in and about the Rochester area. The new directors replaced board members John D. Cockcroft, former chairman of the board of R. T. French Company, and A. J. McMullen, former chairman and chief executive officer of Garlock, Inc., who retired from the board after 19 years and six years service respectively.

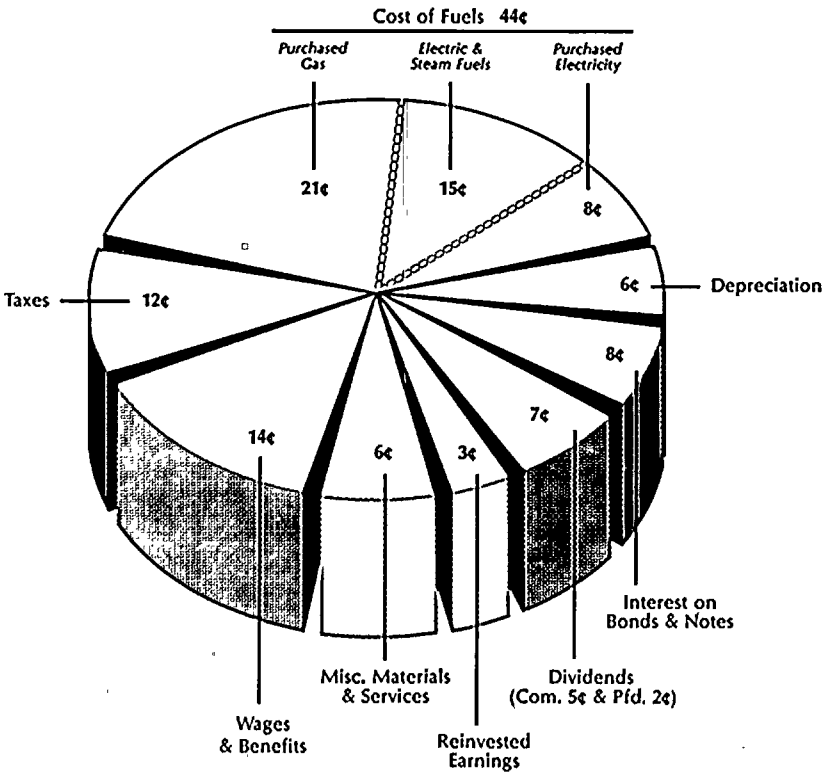
Theodore J. Altier

Theodore L. Levinson

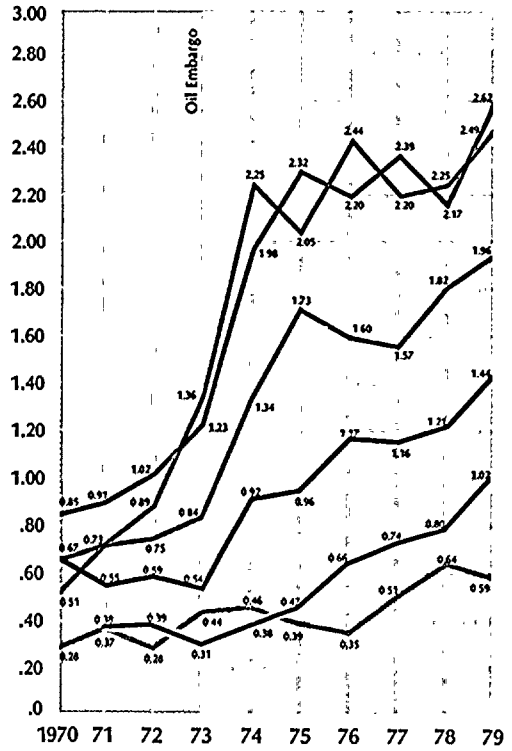
Source of 1979 Revenue Dollar
in Cents



Use of 1979 Revenue Dollar
in Cents

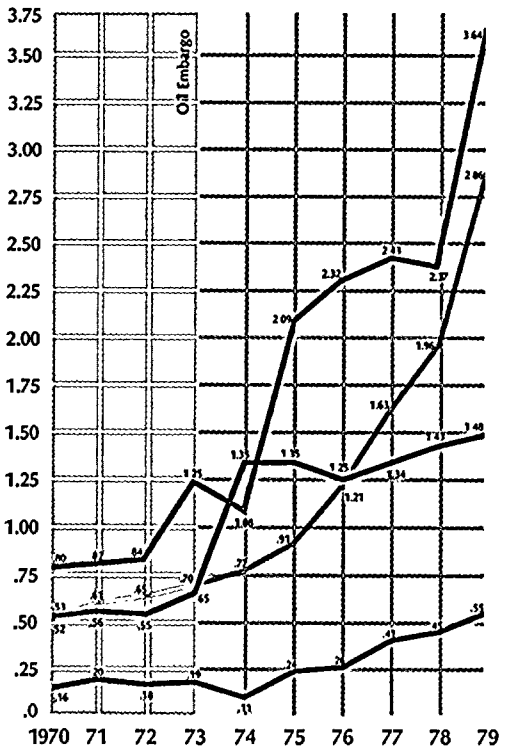


RG&E Production Costs Per Kilowatt-Hour
in Cents



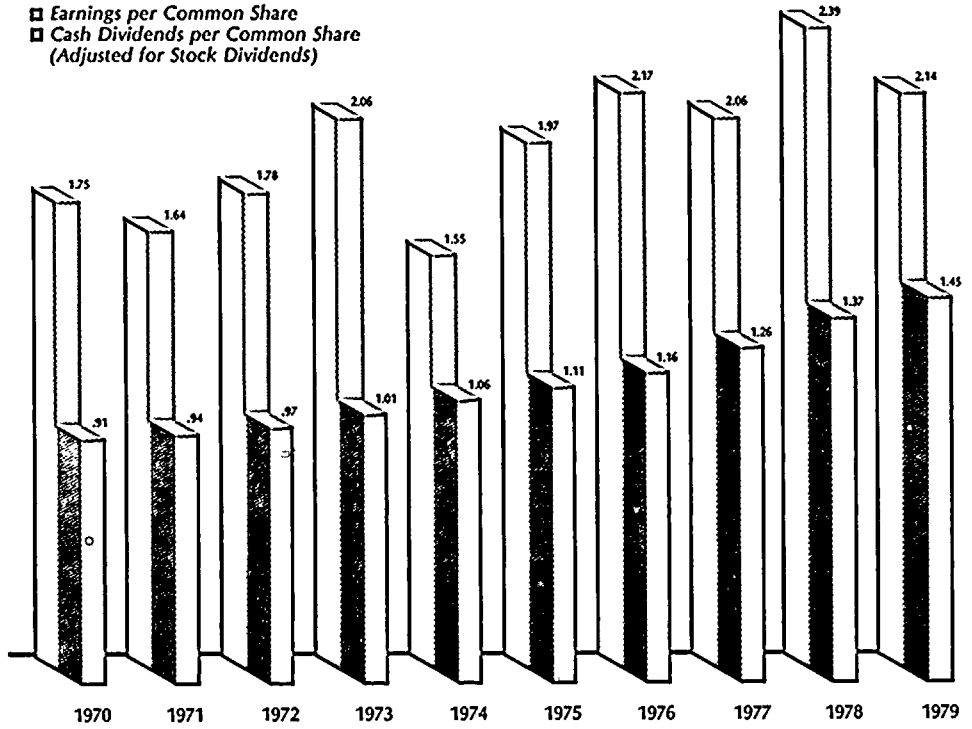
- Beebee Station (Coal/Oil-Fired 190,000 Kw)
- Russell Station (Coal-Fired 260,000 Kw)
- Weighted Average Cost
- Ginna Station (Nuclear 470,000 Kw)
- Hydro Stations (47,000 Kw maximum)
- New York Power Pool Purchases

Fuel Costs Per Million BTU'S
in Dollars

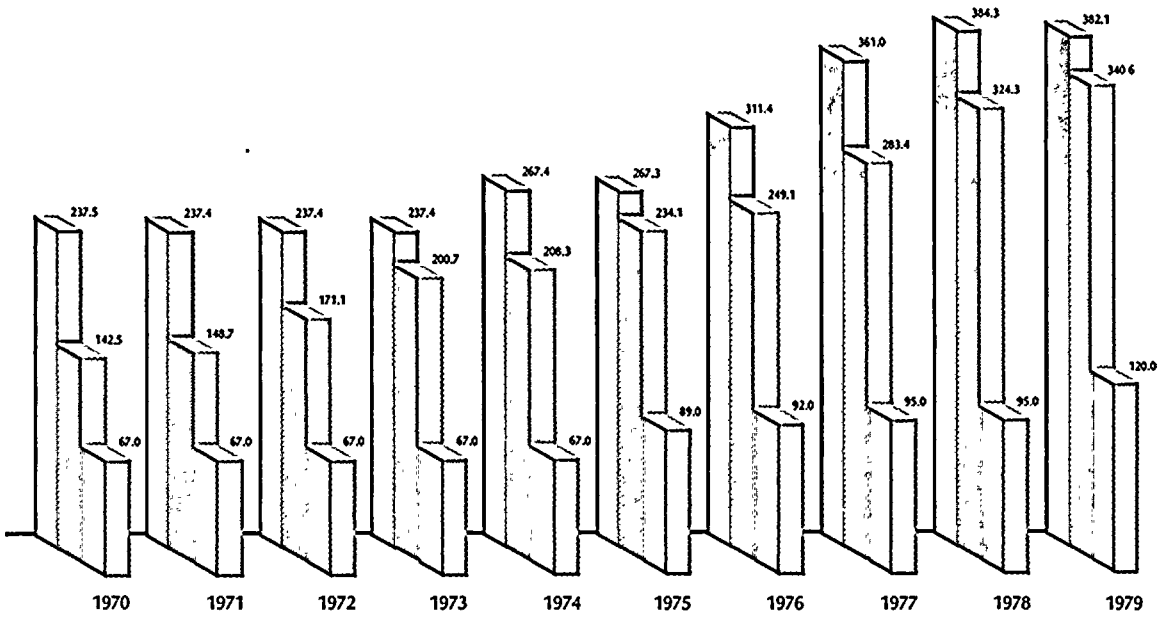


- #6 Fuel Oil
- Natural Gas
- Coal
- Nuclear

Earnings and Dividends Per Common Share
in Dollars



Capitalization
in Millions of Dollars



Statement of Income (Thousands of Dollars)

	Year Ended December 31 1979	1978
Operating Revenues (Note 1)		
Electric	$219,373	$202,631
Gas	140,527	118,531
Steam	19,988	19,110
	379,888	340,272
Electric sales to other utilities	37,804	28,676
Total Operating Revenues	417,692	368,948
Operating Expenses (Note 1)		
Operation		
Electric and steam fuels	61,071	58,140
Purchased electricity	31,937	19,337
Purchased natural gas	89,804	71,109
Other	72,264	65,685
Maintenance	30,129	26,246
Depreciation	23,703	22,206
Taxes—local, state and other	49,916	45,935
Federal income tax—current (Note 3)	(36)	5,166
—deferred (Note 3)	6,782	5,875
Total Operating Expenses	365,570	319,699
Operating Income	52,122	49,249
Other Income and Deductions		
Allowance for other funds used during construction (Note 1)	11,439	8,705
Other, net	3,774	4,418
Total Other Income and Deductions	15,213	13,123
Income before Interest Charges	67,335	62,372
Interest Charges		
Long term debt	29,084	25,594
Short term debt	4,016	1,588
Other, net	441	416
Allowance for borrowed funds used during construction (Note 1)	(5,771)	(4,812)
Total Interest Charges	27,770	22,786
Net Income	39,565	39,586
Dividends on Preferred and Preference Stock, at required rates	6,645	5,678
Earnings Applicable to Common Stock	$ 32,920	$ 33,908
Weighted average number of shares outstanding in each period, adjusted for stock dividends (000's)	15,354	14,187
Earnings per Common Share (Note 1)	$2.14	$2.39
Cash Dividends per Common Share, adjusted for stock dividends (Note 1)	$1.45	$1.37

Statement of Retained Earnings (Thousands of Dollars)

	1979	1978
Balance at beginning of period	$ 77,338	$ 70,819
Add		
Net income	39,565	39,586
Total	116,903	110,405
Deduct		
Dividends on capital stock		
Cumulative preferred stock, at required rates (Note 4)	4,517	3,550
Preference stock (Note 4)	2,128	2,128
Common stock		
Cash (Note 1)	22,148	19,269
Stock (Note 4)	7,955	8,120
Total	36,748	33,067
Balance at end of period	$ 80,155	$ 77,338

Balance Sheet (Thousands of Dollars)

	1979	1978
ASSETS		
Utility Plant, at original cost (Note 1)		
Electric	$728,686	$669,104
Gas	182,046	171,120
Steam	18,064	17,735
	928,796	857,959
Less: Accumulated depreciation and amortization	295,328	261,477
	633,468	596,482
Construction work in progress	260,063	213,534
Net Utility Plant	893,531	810,016
Investment in Subsidiary, at equity	2,062	1,996
Current Assets		
Cash (Note 5)	2,925	11,777
Accounts receivable, net of allowance for doubtful accounts: 1979–$1,247, 1978–$997	37,685	31,700
Materials and supplies, at average cost		
Fossil fuel	12,617	12,673
Construction and other supplies	10,760	9,643
Prepayments	1,250	1,160
Total Current Assets	65,237	66,953
Deferred Debits		
Unamortized debt expense	3,917	3,620
Deferred fuel cost (Note 1)	10,092	5,362
Other	8,011	5,439
Total Deferred Debits	22,020	14,421
Total Assets	$982,850	$893,386
CAPITALIZATION AND LIABILITIES		
Capitalization (Note 4)		
Long term debt	$382,162	$384,303
Preferred stock subject to mandatory redemption	25,000	
Preferred stock redeemable at option of Company	67,000	67,000
Preference stock subject to mandatory redemption	28,000	28,000
Common shareholders' equity		
Common stock	260,432	246,938
Retained earnings	80,155	77,338
Total common shareholders' equity	340,587	324,276
Total Capitalization	842,749	803,579
Current Liabilities		
Short term debt (Note 5)	50,000	
Long term debt due within one year	12,000	16,677
Accounts payable	32,228	29,021
Taxes accrued, including income taxes	8,454	11,335
Interest accrued	8,427	7,667
Payroll accrued	2,949	2,596
Other	1,233	1,066
Total Current Liabilities	115,291	68,362
Deferred Credits and Other Liabilities		
Accumulated deferred income taxes (Notes 1 and 3)	20,502	18,394
Other	4,308	3,051
Total Deferred Credits and Other Liabilities	24,810	21,445
Commitments and Other Matters (Note 7)		
Total Capitalization and Liabilities	$982,850	$893,386

Statement of Changes in Financial Position (Thousands of Dollars)

	1979	1978
Sources of Funds		
Operations		
Net income	$ 39,565	$ 39,586
Principal non-cash charges (credits) to income		
Depreciation	23,703	22,206
Amortization of nuclear fuel	17,126	15,746
Deferred fuel costs	(4,755)	976
Deferred income taxes, net	2,596	3,161
Allowance for funds used during construction	(17,210)	(13,517)
Other, net	1,963	1,204
Total from Operations	62,988	69,362
Financing		
Sale of long term debt	10,000	40,000
Sale of common stock	6,083	27,186
Sale of preferred stock	25,000	
Proceeds from short term debt, net	50,000	
Total from Financing	91,083	67,186
Total Sources of Funds	$154,071	$136,548
Uses of Funds		
Utility plant		
Plant additions	$109,656	$105,191
Nuclear fuel additions	18,981	20,878
Less: Allowance for funds used during construction	17,210	13,517
Net Additions to Utility Plant	111,427	112,552
Dividends on preferred stock	4,517	3,550
Dividends on preference stock	2,128	2,128
Dividends on common stock	22,148	19,269
Reduction of short term debt, net		9,000
Retirement of long term debt	12,000	16,677
Capital stock expense	544	902
Discount and expense of issuing long term debt	635	490
Other, net	(683)	(2,037)
Increase (decrease) in working capital (excluding short term debt)	1,355	(25,983)
Total Uses of Funds	$154,071	$136,548
Changes in Components of Working Capital		
Increase (decrease) in current assets		
Cash	$ (8,852)	$ 5,160
Accounts receivable, net	5,985	1,368
Materials and supplies		
Fossil fuel	(56)	1,886
Construction and other supplies	1,117	(81)
Prepayments	90	233
Total	(1,716)	8,566
Increase (decrease) in current liabilities (excluding short term debt)		
Accounts payable	3,207	10,386
Taxes	(2,881)	6,725
Accrued interest and payroll	1,113	520
Long term debt due within one year	(4,677)	16,677
Other, net	167	241
Total	(3,071)	34,549
Increase (decrease) in Working Capital (excluding short term debt)	$ 1,355	$(25,983)

Notes to Financial Statements

Note 1. Summary of Accounting Policies

General. The Company is subject to regulation by the Public Service Commission of the State of New York (PSC) under New York statutes and by the Federal Energy Regulatory Commission (FERC) as a licensee and public utility under the Federal Power Act. The Company's accounting policies conform to generally accepted accounting principles as applied to New York State public utilities giving effect to the rate making and accounting practices and policies of the PSC.

A description of the Company's principal accounting policies follows.

Utility Plant and Depreciation. The cost of additions to utility plant and replacement of retirement units of property is capitalized. Cost includes labor, material, and similar items as well as indirect charges for engineering, supervision, etc. The Company capitalizes an allowance for funds used during construction approximately equivalent to the cost of capital devoted to plant under construction. Replacement of minor items of property is included in maintenance expenses. Costs of depreciable units of plant retired are eliminated from utility plant accounts, and such costs, plus removal expenses, less salvage, are charged to accumulated depreciation and amortization.

Depreciation in the financial statements is provided on a straight line basis at rates based on the estimated useful lives of property, which have resulted in provisions of 3.1% per annum, of average depreciable property in 1979 and 1978.

Nuclear Fuel and Decommissioning Costs. The cost of nuclear fuel and estimated permanent storage costs are charged to operating expense on the basis of the thermal output of the reactor. These costs are charged to customers through base rates and through the fuel cost adjustment clause.

Due to a Federal government policy adopted in 1977, the Company has changed its nuclear fuel cost computation to reflect the costs of permanent storage of spent nuclear fuel. Prior years' nuclear fuel cost computations anticipated spent nuclear fuel would be reprocessed. Cumulative prior years' fuel expenses would have been increased by approximately $12.0 million if they had been determined on the basis of current cost estimates for permanent storage of spent nuclear fuel, rather than on an estimated amount for reprocessing. In its current electric rate filing the Company has requested amortization and recovery of this amount over a ten year period.

Decommissioning costs (costs to take the plant out of service in the future) for the Company's Ginna nuclear power plant are estimated by the Company to be $37 million in 1979 dollars with decommissioning expected to commence in the year 2006. In its current electric rate filing the Company has proposed to accrue these costs over the remaining life of the facility at an initial rate of $3.1 million per year.

Allowance for Funds Used During Construction. The Company capitalizes an Allowance for Funds Used During Construction (AFDC) based upon the net cost of borrowed funds for construction purposes and a reasonable rate upon the Company's other funds when so used. The rates used for this purpose were 9½% and 8¼% in 1979 and 1978, respectively. As of January 1980, the rate was 10½%. In accordance with the order issued by the Federal Energy Regulatory Commission, AFDC is segregated into two component parts and classified in the Statement of Income to disclose an Allowance for Borrowed Funds Used During Construction as an offset to Interest Charges and an Allowance for Other Funds Used During Construction as a part of Other Income.

In December 1977, the Company began computing AFDC on its share of the Niagara Mohawk Power Corporation Nine Mile Point Nuclear Unit #2 and Oswego Fossil Unit #6 at an average reduced rate which is net of the income tax effect of the interest portion of AFDC. This treatment was extended to the Company's investment in its Sterling nuclear unit in May 1979. The rates for 1979 and 1978 were 7.51% and 6.85%, respectively.

Rates and Revenue. Revenue is recorded on the basis of meters read during the calendar year.

Tariffs for electric and steam service include fuel cost adjustment clauses which serve to adjust electric and steam rates monthly to reflect changes in the average costs of fuels used in electric and steam generation from the average cost of such fuels during the base period. Tariffs for gas service contain a comparable clause to adjust gas rates for changes in the price of purchased natural gas.

Deferred Fuel Costs. Fuel costs which are recoverable under the electric, gas and steam cost adjustment clauses included in the tariff schedules of the Company are deferred until they are billed to customers. A reconciliation of recoverable gas costs with billed gas revenues is done annually as of August 31, and the excess or deficiency is refunded to or recovered from the customers during a subsequent twelve month period.

Federal Income Tax. For income tax purposes, depreciation is computed using the most liberal methods permitted. In addition, certain costs capitalized for financial reporting purposes are deducted currently for income tax purposes. The resulting tax reductions are offset by provisions for deferred income taxes only to the extent ordered or permitted by regulatory authorities.

The 10% investment tax credit rate, which had been scheduled to return to 4% in 1981, has been made permanent by the Revenue Act of 1978. The prior rate of 4% is applied to reduce

the current tax provision while, as recommended by the PSC, normalized tax accounting is followed in the application of the remaining 6%.

The Company uses the separate period approach in calculating the interim quarterly tax provision.

Pension Plan. The Company's retirement plan is noncontributory and covers all regular employees. Current service costs are funded annually. Past service costs are being amortized over a 40 year period.

Retirement plan expenditures for the years 1979 and 1978 were $10.6 million and $9.9 million, respectively. Of these amounts, approximately 17% were charged to construction in 1979 and 1978. The actuarially computed value of vested benefits at December 31, 1979 exceeds the assets in the plan by approximately $17 million.

Earnings and Dividends Per Share. Earnings applicable to each share of common stock are based on the weighted average number of shares outstanding during the respective years, adjusted for stock dividends. Cash dividends per share are based on the shares outstanding at the time dividends are paid, adjusted for stock dividends. Cash dividends per share at the rates declared in each period amount to $1.46 for 1979 and $1.42 for 1978.

Note 2. Departmental Financial Information (Thousands of Dollars)

The Company's records are maintained by operating departments, in accordance with PSC accounting policies, giving effect to the rate making process. The following is the operating data for each of the Company's departments and no interdepartmental adjustments are required to arrive at the operating data included in the Statement of Income.

	Electric	Gas	Steam	Total
Operating information—1979				
Operating revenues	$257,177	$140,527	$19,988	$417,692
Operating expenses, excluding provision for income taxes	209,283	129,645	19,896	358,824
Pretax operating income	47,894	10,882	92	58,868
Provision for income taxes	5,600	1,314	(168)	6,746
Net operating income	$ 42,294	$ 9,568	$ 260	52,122
Other income, net				15,213
Interest charges				27,770
Net income per statement of income				$ 39,565
Other information				
Depreciation	$ 18,224	$ 4,888	$ 591	$ 23,703
Nuclear fuel amortization	$ 17,126			$ 17,126
Capital expenditures	$ 97,577	$ 13,434	$ 416	$111,427
Investment information—December 31, 1979				
Identifiable assets	$789,832	$166,274	$16,415	$972,521
Assets utilized for overall Company operations (a)				10,329
Total assets per balance sheet				$982,850
Operating information—1978				
Operating revenues	$231,307	$118,531	$19,110	$368,948
Operating expenses, excluding provision for income taxes	181,428	107,873	19,357	308,658
Pretax operating income	49,879	10,658	(247)	60,290
Provision for income taxes	9,244	1,966	(169)	11,041
Net operating income	$ 40,635	$ 8,692	$ (78)	49,249
Other income, net				13,123
Interest charges				22,786
Net income per statement of income				$ 39,586
Other information				
Depreciation	$ 16,984	$ 4,641	$ 581	$ 22,206
Nuclear fuel amortization	$ 15,746			$ 15,746
Capital expenditures	$100,194	$ 11,903	$ 455	$112,552
Investment information—December 31, 1978				
Identifiable assets	$711,917	$146,299	$15,716	$873,932
Assets utilized for overall Company operations (a)				19,454
Total assets per balance sheet				$893,386

(a) Consists primarily of cash, prepayments and unamortized debt expense.

Note 3. Federal Income Tax Provision (Thousands of Dollars)

The following is a reconciliation for the years 1979 and 1978 of the difference between the amount of Federal income tax expense reported in the Statement of Income and the amount computed by multiplying the income before tax by the statutory tax rate.

	1979 Amount	1979 % of Pretax Income	1978 Amount	1978 % of Pretax Income
Net income	$39,565		$39,586	
Federal income tax				
Current	(36)		5,166	
Deferred	6,782		5,875	
Charged to operating expense	6,746		11,041	
Amort. of deferred investment tax credit	(436)		(513)	
Net of tax rate difference applicable to AFDC (Note 1)	(3,750)		(2,201)	
Other	(321)		(2,501)	
Included in other income	(4,507)		(5,215)	
Actual Federal income tax expense	2,239		5,826	
Income before Federal income tax	$41,804		$45,412	
Computed tax expense	$19,230	46.0	$21,797	48.0
Increases (reductions) in tax resulting from:				
Excess of tax depreciation less amount deferred	(4,145)	(9.9)	(3,525)	(7.8)
Expenses capitalized for financial statements including interest, payroll and use tax, etc.	(10,763)	(25.7)	(9,361)	(20.6)
Investment tax credit	(579)	(1.4)	(4,955)	(10.9)
Property taxes on basis of date of taxable status	(698)	(1.7)	224	.5
Cost of removal, less net amount deferred	(809)	(1.9)	(724)	(1.6)
Revenue taxes (deducted when paid)	381	.9	2,133	4.7
Miscellaneous items, net	(378)	(.9)	237	.5
Actual Federal income tax expense	$ 2,239	5.4	$ 5,826	12.8

A summary of the deferred amounts charged or (credited) to income is as follows:

	1979	1978
Investment tax credit	$ (222)	$6,629
Class life depreciation	2,076	1,763
Fuel costs	2,108	(469)
Nuclear fuel amortization	244	(142)
Nuclear fuel storage costs	(2,672)	(4,989)
765 KV Transmission system abandonment costs	(211)	850
Other	1,273	(481)
	$2,596	$3,161

At December 31, 1979 the Company has approximately $13.5 million of investment tax credits available to be carried forward which expire in 1986.

Note 4. Capitalization

Long Term Debt

First Mortgage Bonds %	Series	Due	(Thousands) Principal Amount December 31, 1979	1978
3	L	Mar. 1, 1979		$ 16,677
2¾	M	Aug. 15, 1980	$ 12,000	12,000
3⅛	N	June 1, 1982	6,000	6,000
3⅜	O	Mar. 1, 1985	10,000	10,000
4⅞	R	July 1, 1987	15,000	15,000
5	S	Oct. 15, 1989	12,000	12,000
4½	T	Nov. 15, 1991	15,000	15,000
4⅝	U	Sept. 15, 1994	16,000	16,000
5.3	V	May 1, 1996	18,000	18,000
6¼	W	Sept. 15, 1997	20,000	20,000
6.7	X	July 1, 1998	30,000	30,000
8	Y	Aug. 15, 1999	30,000	30,000
9⅛	Z	Sept. 1, 2000	30,000	30,000
10¼	AA	Aug. 1, 1983	29,667	29,667
9¼	BB	June 15, 2006	50,000	50,000
8⅛	CC	Sept. 15, 2007	50,000	50,000
9½	DD	Dec. 1, 2003	40,000	40,000
6½	EE	Aug. 1, 2009	10,000	
			393,667	400,344
Less: Due within one year			12,000	16,677
Total LongTerm Debt			$381,667	$383,667

Bond premium and discount applicable to the years 1979 and 1978 is $495,372 and $635,667, respectively.

Sinking and improvement fund requirements aggregate $333,540 per annum. Such requirements may be met by certification of additional property or by depositing cash with the Trustee. The 1979 and 1978 requirements were met by certification of additional property.

The Series EE First Mortgage Bonds equal the principal amount of and provide for all payments of principal, premium and interest corresponding to the Pollution Control Revenue Bonds, Series A (Rochester Gas and Electric Corporation Projects) issued by the New York State Energy Research and Development Authority through a participation agreement with the Company. The Series EE bonds are subject to a mandatory sinking fund beginning August 1, 2000 and each August 1 thereafter. Nine annual deposits aggregating $3,200,000 will be made to the sinking fund, with the balance of $6,800,000 principal amount of the bonds becoming due August 1, 2009.

On December 28, 1979, the Company entered into a bond purchase agreement for the issuance of $55 million, First Mortgage 10.95% Bonds, due 2005, Series FF. Delivery of $35.9 million will be made on February 15, 1980 and the balance to be delivered on May 1, 1980.

Capital Stock

Preferred Stock (cumulative)—Par value $100; 2,000,000 shares authorized:

%	Series	Shares Outstanding	(Thousands) December 31 1979	1978	Redemption (per share) (a)	
Mandatory redemption						
8.60	P	250,000	$25,000		108.60	Before 9/1/84 (b)
Redemption at option of Company						
4	F	120,000	$12,000	$12,000	105	At any time
4.10	H	80,000	8,000	8,000	101	At any time
4¼	I	60,000	6,000	6,000	101	At any time
4.10	J	50,000	5,000	5,000	102.50	At any time
4.95	K	60,000	6,000	6,000	102	At any time
4.55	M	100,000	10,000	10,000	102	Before 3/1/80
7.50	N	200,000	20,000	20,000	106	Before 6/1/82
		670,000	$67,000	$67,000		

(a) Redeemable at the option of the Company on 30 days minimum notice, plus accrued dividends in all cases.

(b) On September 1, 1984 and on each September 1, thereafter, the Company must redeem 8,125 shares at $100 per share by means of a sinking fund provision with the noncumulative option to redeem not more than 8,125 additional shares on the same terms.

Series O Preferred Stock was redeemed on December 20, 1977. The related issuance costs were charged to retained earnings, and the call premium of $2,750,000 related to this series was reported as other deferred debits and, beginning in January 1978, is being amortized in accordance with an order of the PSC.

The Company's Certificate of Incorporation authorizes 4,000,000 shares of cumulative preferred stock, having a par value of $25 per share. None of this preferred stock has been issued.

Preference Stock—Par value $1; 5,000,000 shares authorized:

%	Series	Shares Outstanding	(Thousands) December 31 1979	1978
7.6	A	280,000	$28,000	$28,000

During January 1985, the Company must offer to purchase on October 1, 1985 all of the outstanding 7.6% Series A Preference Stock at a price of $100 per share. The shares remaining outstanding after such offer are callable at $100 per share at the option of the Company at any time after December 20, 1987.

Preference stock is subordinate to preferred stock but is senior to common stock.

Common Stock—Par value $5; 25,000,000 shares authorized:

	Per Share	Shares	(Thousands) Amount
Outstanding, December 31, 1977		12,889,631	$212,533
3% Stock Dividend	$21.00	386,689	8,120
Sale of Stock	18.75	1,250,000	23,438
Automatic Dividend Reinvestment Plan	17.19–19.25	206,427	3,749
Capital Stock Expense			(902)
Outstanding, December 31, 1978		14,732,747	246,938
3% Stock Dividend	18.00	441,983	7,955
Automatic Dividend Reinvestment Plan	14.81–17.25	309,747	4,967
TRASOP*	15.86	70,384	1,116
Capital Stock Expense			(544)
Outstanding, December 31, 1979		15,554,861	$260,432

*Tax Reduction Act Stock Ownership Plan

At December 31, 1979 there were 706,050 shares of common stock reserved and unissued under the Automatic Dividend Reinvestment Plan. No other shares of common, preferred or preference stock are reserved for officers and employees or for options, warrants, conversions, and other rights.

Note 5. Cash and Short Term Debt

Cash of $2,924,519 at December 31, 1979 consisted of $1,771,679 working capital deposits and $1,152,840 special deposits with bond trustees. At December 31, 1978, the Company had $7 million in temporary cash investments.

The Company had established bank lines of credit totaling $64,000,000 at the end of the year, which will be increased to $80,000,000 on January 29, 1980. As of January 1, 1979, these lines of credit are maintained by payment of commitment fees, paid as a percentage of floating prime rates, in lieu of compensating balances. Commitment fees paid in 1979 were $343,082. Borrowings under the lines are at floating prime rates or at floating prime plus a fraction thereof. Notes issued have various terms of maturity but do not exceed nine months.

The Company also issues commercial paper at various discount rates, usually maturing within 30-45 days.

Balances and average interest rates of short term borrowings, exclusive of commitment fees and compensating balances, were as follows:

	1979 Rates	1979 Amount (Thousands)	1978 Rates	1978 Amount (Thousands)
Outstanding short term debt and average interest rate at end of period:				
Notes Payable	15.68%	$25,000		
Commercial Paper	13.53%	$25,000		
Maximum short term debt outstanding during the period:				
Notes Payable		$25,000		$15,500
Commercial Paper		$29,450		$15,900
Weighted average short term debt and interest rates during the period:				
Notes Payable	13.75%	$16,125	8.82%	$7,769
Commercial Paper	11.50%	$15,655	7.84%	$9,450

The above averages were based upon the daily balances and interest rates in effect for the periods during which short term borrowings were outstanding.

Note 6. Jointly-Owned Facilities

The following table sets forth the jointly-owned electric generating projects in which the Company is participating, which will add to the Company's present generating capability. Each participant must provide its own financing for these projects.

	Oswego Fossil Unit #6①②	Nine Mile Point Nuclear Unit #2①
Estimated year of completion①	1980	1986
Net megawatt capability	850	1,084
RG&E's share—megawatts	204	152
—percent	24	14
	(Millions of Dollars)	
Total estimated project costs	$250.6	$1,433.9④
RG&E's share	60.1	200.7
RG&E's actual construction costs—1978	$ 9.2	$22.4
—1979	10.0	23.7
expended in prior years	36.3	48.1
Total	$55.5	$94.2

①To be constructed and operated by Niagara Mohawk Power Corporation.

②In accordance with an order issued by the PSC, the Company must defer all income and expenses associated with this unit until the plant is added to rate base for rate making purposes. There were no significant deferrals in 1979.

③Construction costs exclude allowance for funds used during construction and certain overhead costs to be capitalized.

④The present cost estimate excludes common facilities, but includes $81.9 million for initial nuclear fuel loading. This is based on the previous 1984 completion date; however, it is reasonable to anticipate significant increases associated with the new construction schedule. A revised cost estimate will be determined following the completion of ongoing studies through 1980.

Note 7. Commitments and Other Matters

The Company's capital expenditures program involves an estimated expenditure of $99 million, not including allowance for funds used during construction, in 1980 and the Company has entered into certain commitments for purchase of materials and equipment in connection with such program.

Operations of the Company's generating stations are subject to various Federal, state and local environmental standards.

Under the Clean Water Act, the Company has obtained permits to discharge pollutants into the waters of the United States. The United States Environmental Protection Agency (EPA) issued National Pollutant Discharge Elimination System permits for all the Company's major generating facilities, but a number of conditions relating to thermal and chemical discharge limitations were contested by the Company in adjudicatory hearing requests submitted to EPA. The Company, the New York State Department of Environmental Conservation (which became a party to the adjudicatory hearings) and EPA have settled the hearing requests as described below.

The Company has reached agreement with the regulatory agencies on non-thermal effluent limitations and final permits containing these agreed limitations have been issued and are now in effect. Construction of treatment facilities required for Company compliance with permit limitations for two of the Company's generating stations was essentially completed during 1979. Construction costs of these two facilities will total approximately $12 million, of which $11.1 million was expended through 1979, and the balance is to be expended in 1980.

The Company has pursued resolution of the contested thermal limitations by submitting demonstrations in an effort to justify less stringent limitations for three generating stations. The thermal conditions of the permits remain stayed pending resolution of the thermal issues either through regulatory agencies' approval of the demonstrations and less stringent thermal limitations or, in the absence of such approval, through the resumption of the adjudicatory hearing process. If the demonstrations and less stringent thermal limitations are not approved for any of the three facilities, the Company could be required to install cooling towers which would involve capital expenditures estimated at $61 million plus significant operating and maintenance expenses.

The Company believes that additional expenditures and costs made necessary by environmental regulations will be fully allowable for rate making purposes.

The Company, along with three other New York State utilities, formed a joint venture to construct and operate the Sterling Nuclear Plant. The Company's financial obligations and generating capacity were to have been 28%.

As of January 1978, the Company had received certification from the New York State Board on Electric Generation Siting and the Environment for the construction of the Sterling Nuclear Plant. The Company also holds a construction permit issued by the Nuclear Regulatory Commission. In May 1978, the Siting Board suspended certification pending a reexamination of load growth statistics, and on January 23, 1980, the Siting Board announced it had voted to revoke the certification. The Company, and its partners in the joint venture, have made a determination not to appeal the decision; accordingly, the project will be abandoned. At December 31, 1979 the Company's net investment in the plant is summarized as follows (in thousands of dollars):

Construction costs	$34,300
Less: Estimated tax effect of abandonment	9,400
	$24,900

The Company's share of the estimated contract termination costs would be $7 million, prior to tax savings.

The Company and the three other utilities participating in the Plant, petitioned the PSC on February 6, 1980 for permission to: continue to accumulate Allowance for Funds Used During Construction on their respective shares of the project costs until amortization of such costs begins to be recovered in rates, amortize their investment as a cost of service over a period of time to be determined in each participant's currently pending or next rate case and that the proceedings be conducted on an expedited basis. By an order dated February 19, 1980, the PSC ordered "[T]hat the petitioners be allowed to continue, until such time as amortization commences to be recovered in rates, to accrue and accumulate an allowance for funds used during construction with respect to project costs."

Legal actions have been instituted against the Company seeking $34 million in compensatory and $64 million in punitive damages for alleged personal injuries as a result of exposure to radiation at the Company's Ginna nuclear power plant in 1974.

The Company has not completed its investigation of the plaintiffs' allegations and it cannot now predict the outcome of these actions, nor can it predict whether any additional similar actions might be commenced. Based, however, on its investigation to date, the Company does not believe the plaintiffs will prevail on the merits, and it intends to contest these claims vigorously.

The Company is fully insured for the total compensatory damages that are sought in these actions, and its insurer has advised the Company that it will fully defend all claims. However, the insurer has disclaimed any obligation for the payment of any punitive damages which may be assessed

against the Company. There is precedent in New York State that it is contrary to public policy for an insurance carrier to pay punitive damages assessed against its insured, but it is unclear whether that precedent would apply to the nuclear liability insurance involved in these actions. The Company intends to contest the disclaimer of coverage for punitive damages.

Note 8. Interim Financial Information (Unaudited)

In the opinion of the Company, the following quarterly information includes all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results of operations for such periods. The variations in operations reported on a quarterly basis are a result of the seasonal nature of the Company's business and the availability of the Company's Ginna nuclear plant. Earnings per common share have been adjusted for stock dividends.

	Quarter Ended (Thousands)			
	Dec. 31, 1979	Sept. 30, 1979	June 30, 1979	Mar. 31, 1979
Operating revenues . .	$108,243	$83,010	$105,766	$120,673
Operating income . . .	11,279	8,244	14,265	18,334
Net income	7,194	5,212	10,939	16,220
Earnings on common stock	5,237	3,362	9,520	14,801
Earnings per common share (in dollars) . .	.33	.21	.62	.97
	Dec. 31, 1978	Sept. 30, 1978	June 30, 1978	Mar. 31, 1978
Operating revenues . .	$92,312	$73,665	$86,942	$116,029
Operating income . . .	8,466	9,527	12,009	19,247
Net income	7,088	6,596	9,909	15,993
Earnings on common stock	5,669	5,175	8,490	14,574
Earnings per common share (in dollars) . .	.37	.36	.61	1.06

Report of Independent Accountants

To the Shareholders and Board of Directors of Rochester Gas and Electric Corporation

In our opinion, the accompanying balance sheets and the related statements of income, retained earnings, and of changes in financial position appearing on pages 16 through 18 present fairly the financial position of Rochester Gas and Electric Corporation at December 31, 1979 and 1978, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co

1900 Lincoln First Tower
Rochester, New York 14604
January 25, 1980
(Except as to Note 7, for which the date is February 19, 1980.)

Supplementary Information on the Effects of Changing Prices (Unaudited)

The following information is supplied in accordance with the requirements of Statement No. 33 issued by the Financial Accounting Standards Board for the purpose of providing information about the effects of changing prices. It is an estimate of the effect of inflation, rather than a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumers Price Index for all Urban Consumers. Current cost amounts reflect the changes in specific prices of utility plant from the date the plant was acquired to the present. They are different from constant dollar amounts because specific prices could have increased more or less rapidly than general prices. The current cost of utility plant which includes land, land rights, property held for future use, and construction work in progress, represents the estimated cost of replacing existing assets and was determined by indexing utility plant by the Handy-Whitman Index of Public Utility Construction Costs.

The annual provision for depreciation on the constant dollar and current cost amounts of utility plant was determined by applying the Company's depreciation rates to the indexed plant amounts.

Fuel inventories, the cost of fuel used in generation, and gas purchased for resale have not been restated from their historical cost. Regulation limits their recovery through the operation of fuel adjustment clauses and any increases are effectively receivables from customers. For this reason fuel inventories are treated as monetary assets.

Non-redeemable preferred stock has been treated as a monetary item since it is treated the same as debt for rate making purposes.

As prescribed by Statement No. 33, income taxes were not adjusted.

Under the rate making policy to which the Company is subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant in constant dollars or current cost over historical cost is not presently recoverable in rates as depreciation, and accordingly is reflected as a reduction to net recoverable cost.

To properly reflect the economics of rate regulation in the Statement of Income, the reduction of net property, plant, and equipment should be offset by the gain from a decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance utility plant. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Statement of Income from Continuing Operations
Adjusted for Changing Prices
For The Year Ended December 31, 1979
(Thousands of Dollars)

	Historical Cost	Constant Dollar Average 1979 Dollars	Current Cost Average 1979 Dollars
Operating revenues	$417,692	$417,692	$417,692
Operating expense	255,076	255,076	255,076
Maintenance expense	30,129	30,129	30,129
Depreciation expense	23,703	47,572	59,335
Tax expense–local, state and other	49,916	49,916	49,916
Income tax expense	6,746	6,746	6,746
Interest expense	33,541	33,541	33,541
Other income and deductions–net	(20,984)	(20,984)	(20,984)
	378,127	401,996	413,759
Income from continuing operations (excluding reduction to net recoverable cost)	$ 39,565	$ 15,696*	$ 3,933
Increase in specific prices of utility plant held during the year**			$205,023
Reduction to net recoverable cost		$ (82,601)	(55,656)
Effect of increase in general price level			(220,205)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(70,838)
Gain from decline in purchasing power of net amounts owed		65,031	65,031
Net		$ (17,570)	$ (5,807)

*Including the reduction to net recoverable cost, the loss from continuing operations on a constant dollar basis would have been $66,905 for 1979.

**At December 31, 1979, current cost of utility property net of accumulated depreciation was $1,893,576, while historical cost was $893,531.

Five-Year Comparison of Selected Financial Data
Adjusted for Changing Prices
(In Thousands of Average 1979 Dollars)

	Year Ended December 31				
	1979	1978	1977	1976	1975
Operating revenues	$417,692	$410,488	$396,643	$393,012	$366,748
Historical cost information adjusted for general inflation					
Income from continuing operations (excluding reduction to net recoverable cost)	15,696				
Net income per common share (after dividend requirements on preferred and preference stock and excluding reduction to net recoverable cost)	$.59				
Net assets at year-end at net recoverable cost	322,069				
Current cost information					
Income from continuing operations (excluding reduction to net recoverable cost)	3,933				
Net loss per common share (after dividend requirements on preferred and preference stock)	$(.18)				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	70,838				
Net assets at year-end at net recoverable cost	322,069				
General information					
Gain from decline in purchasing power of net amounts owed	65,031				
Cash dividends per common share, adjusted for stock dividends	$ 1.45	$ 1.52	$ 1.51	$ 1.48	$ 1.50
Market price per common share at year-end (in December 1979 dollars)	$14.88	$20.40	$26.10	$26.21	$22.63
Average Consumer Price Index	217.4	195.4	181.5	170.5	161.2
December Consumer Price Index	229.9	202.9	186.1	174.3	166.3

Management's Discussion and Analysis of the Summary of Operations

The following financial review explains significant changes in the amounts of revenues and expenses between 1979/1978 and between 1978/1977. The Notes to Financial Statements on page 19 of this report contain additional related information.

Operating Revenues

Changes in Operating Revenues
Increase or (Decrease) from Prior Year
(Thousands of Dollars)

	Electric Department		Gas Department		Steam Department	
	1979	1978	1979	1978	1979	1978
Customer Revenues (Estimated) from:						
Rate Increases	$10,464	$12,181	$ 1,946	$ 2,555	$ –	$ –
Fuel Cost Adjustment	2,764	6,446	20,986	5,582	1,757	(23)
Weather Effects	(61)	221	(735)	3,259	(24)	367
Customer Sales	2,842	3,485	(526)	(289)	(1,013)	(314)
Other	733	358	325	1,627*	158	76
Total Change in Customer Revenues	16,742	22,691	21,996	12,734	878	106
Electric Sales to Other Utilities	9,128	2,273	–	–	–	–
Total Change in Operating Revenues	$25,870	$24,964	$21,996	$12,734	$ 878	$106

*Reflects a one-time $10 gas heating bill credit in the aggregate amount of approximately $1.6 million that was applied to residential customers in February 1977. The credit was made by the Company on its own initiative in order to alleviate the economic burden to customers who were faced with record high gas heating bills caused by the severe weather conditions in January 1977 and, in some cases, with reduced income due to plant shutdowns forced by natural gas curtailments.

Revenues from electric sales to other utilities increased in both 1979 and 1978. Fluctuations in electric sales to other utilities and in purchased electricity discussed under Operating Expenses below generally are related to the output and availability of electric generation from the Ginna nuclear plant.

Operating Expenses

Changes in Operation and Maintenance Expenses
Increase or (Decrease) from Prior Year
(Thousands of Dollars)

	1979	1978
Electric and Steam Fuels	$ 2,931	$ 1,147
Purchased Electricity	12,600	5,702
Purchased Natural Gas	18,695	9,023
Other Operation	6,579	3,191
Maintenance	3,883	3,874
Total Change in Operation and Maintenance Expense	$44,688	$22,937

Purchased electricity expense increased in 1979 and 1978 due to both higher costs and higher kilowatt-hour purchases.

Purchased natural gas expense increased in 1979 and 1978 as a result of higher pipeline rates and in 1978 also increased due to greater consumption because of colder weather.

Other operation expense increased $6.6 million in 1979 largely as a result of higher wages and employee benefit costs.

The increase in maintenance expense of $3.9 million in both 1979 and 1978 reflects increases in the cost of labor and materials to repair and maintain existing facilities.

Changes in Taxes

Taxes–local, state and other increased $4.0 million in 1979 principally due to the increased gross income tax rate and increased revenues. The 1978 increase of $2.1 million was also principally due to higher gross income taxes based on increased revenues.

Total Federal income taxes decreased $3.6 million in 1979 after increasing $3.7 million in 1978. See Note 3 to the Notes to Financial Statements for a detailed analysis.

Other Statement of Income Items

The increase in allowance for funds used during construction of $3.7 million in 1979 and $2.2 million in 1978 was due to increases in utility plant expenditures in both periods and the increased rate applied in 1979. See Note 1 to the Notes to Financial Statements.

Other–other income and deductions increased $3.1 million in 1978 principally due to added non-operating Federal income tax credits.

Interest on long term debt increased $3.5 million in 1979 and $3.1 million in 1978 as a result of additional bonds issued in August 1979, December 1978 and September 1977.

The $2.4 million increase in the 1979 interest on short term debt resulted from higher interest rates and an increase of $14.6 million in the average amount of short term debt outstanding.

Dividends on preferred and preference stock increased $1.0 million in 1979 because of additional preferred stock issued in July 1979. The decrease of $.8 million in 1978 was due to the refunding in December 1977 of a series of preferred stock with the proceeds from the sale of a series of preference stock having a lower dividend rate.

Summary of Operations (Thousands of Dollars)

	Year Ended December 31					
	1979	1978	1977	1976	1975	1974
Operating Revenues						
Electric	$219,373	$202,631	$179,940	$170,558	$146,629	$127,560
Gas	140,527	118,531	105,797	101,027	82,478	75,463
Steam	19,988	19,110	19,004	18,383	17,337	16,321
	379,888	340,272	304,741	289,968	246,444	219,344
Electric sales to other utilities	37,804	28,676	26,403	18,259	25,496	14,697
Total Operating Revenues	417,692	368,948	331,144	308,227	271,940	234,041
Operating Expenses						
Operation						
Electric and steam fuels	61,071	58,140	56,993	46,361	46,268	36,693
Purchased electricity	31,937	19,337	13,635	18,195	12,212	12,070
Purchased natural gas	89,804	71,109	62,086	56,192	42,247	37,342
Other	72,264	65,685	62,494	57,677	50,629	44,356
Maintenance	30,129	26,246	22,372	20,206	19,700	17,966
Depreciation	23,703	22,206	21,053	18,621	17,414	16,491
Taxes—local, state and other	49,916	45,935	43,876	40,502	36,157	32,410
Federal income tax—current	(36)	5,166	961	(291)	4,162	(3,126)
—deferred	6,782	5,875	2,897	5,656	1,133	4,277
Total Operating Expenses	365,570	319,699	286,367	263,119	229,922	198,479
Operating Income	52,122	49,249	44,777	45,108	42,018	35,562
Other Income and Deductions						
Allowance for other funds used during construction	11,439	8,705	6,473	4,678	2,310	1,128
Other, net	3,774	4,418	1,310	1,128	537	670
Total Other Income and Deductions	15,213	13,123	7,783	5,806	2,847	1,798
Income before Interest Charges	67,335	62,372	52,560	50,914	44,865	37,360
Interest Charges						
Long term debt	29,084	25,594	22,542	19,378	16,963	14,965
Short term debt	4,016	1,588	1,319	1,054	1,568	2,255
Other, net	441	416	494	246	1,227	210
Allowance for borrowed funds used during construction	(5,771)	(4,812)	(4,844)	(2,853)	(1,264)	(613)
Total Interest Charges	27,770	22,786	19,511	17,825	18,494	16,817
Net Income	39,565	39,586	33,049	33,089	26,371	20,543
Dividends on Preferred and Preference Stock, at required rates	6,645	5,678	6,512	6,245	4,054	3,550
Earnings Applicable to Common Stock	$ 32,920	$ 33,908	$ 26,537	$ 26,844	$ 22,317	$ 16,993
Weighted average number of shares outstanding in each period, adjusted for stock dividends (000's)	15,354	14,187	12,848	12,343	11,316	10,947
Earnings per Common Share	$2.14	$2.39	$2.06	$2.17	$1.97	$1.55
Cash Dividends per Common Share, adjusted for stock dividends	$1.45	$1.37	$1.26	$1.16	$1.11	$1.06

RGE ROCHESTER GAS AND ELECTRIC CORPORATION

Condensed Balance Sheet (Thousands of Dollars)

At December 31	1979	1978	1977	1976	1975	1974
ASSETS						
Utility Plant, at original cost	$928,796	$857,959	$789,775	$727,687	$693,404	$659,308
Less–Accumulated depreciation and amortization	295,328	261,477	229,122	198,778	185,455	167,645
	633,468	596,482	560,653	528,909	507,949	491,663
Construction work in progress	260,063	213,534	162,127	120,702	79,381	39,324
Net utility plant	893,531	810,016	722,780	649,611	587,330	530,987
Investment in Subsidiary, at equity	2,062	1,996	1,947	1,911	1,871	1,834
Current Assets	65,237	66,953	58,387	61,090	53,796	52,678
Deferred Debits	22,020	14,421	15,260	8,151	7,450	8,213
Total Assets	$982,850	$893,386	$798,374	$720,763	$650,447	$593,712
CAPITALIZATION AND LIABILITIES						
Capitalization						
Long term debt	$382,162	$384,303	$361,022	$311,395	$267,314	$267,348
Preferred stock subject to mandatory redemption	25,000					
Preferred stock redeemable at option of Company	67,000	67,000	67,000	92,000	89,000	67,000
Preference stock subject to mandatory redemption	28,000	28,000	28,000			
Common shareholders' equity						
Common stock	260,432	246,938	212,533	181,301	173,586	154,758
Retained earnings	80,155	77,338	70,819	67,812	60,502	53,568
Total common shareholders' equity	340,587	324,276	283,352	249,113	234,088	208,326
Total Capitalization	842,749	803,579	739,374	652,508	590,402	542,674
Current Liabilities	115,291	68,362	42,813	54,652	51,712	43,952
Deferred Credits and Other Liabilities	24,810	21,445	16,187	13,603	8,333	7,086
Total Capitalization and Liabilities	$982,850	$893,386	$798,374	$720,763	$650,447	$593,712

Financial Data

At December 31	1979	1978	1977	1976	1975	1974
Capitalization Ratios (percent)						
Long term debt	45.4	47.8	48.8	47.7	45.3	49.3
Preferred and preference stock	14.2	11.8	12.9	14.1	15.1	12.3
Common shareholders' equity	40.4	40.4	38.3	38.2	39.6	38.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
Book Value per Common Share Adjusted for Stock Dividends–Year End	$21.90	$21.37	$20.72	$20.06	$19.12	$18.98
Internal Generation of Funds (percent)	29.8	39.5	35.9	44.6	42.5	42.3
Rate of Return On Average Common Equity–Year End (percent)	9.85	11.22	10.02	11.16	10.18	8.44
Effective Federal Income Tax Rate (percent)	5.4	12.8	6.2	10.6	14.4	1.7
Depreciation Rate–Electric	3.10	3.09	3.00	2.90	2.79	2.79
–Gas	2.79	2.79	2.67	2.63	2.60	2.60
Interest Coverages						
Before federal income taxes (incld. AFDC)	2.25	2.65	2.45	2.79	2.56	2.20
(excld. AFDC)	1.73	2.16	1.98	2.43	2.38	2.10
After federal income taxes (incld. AFDC)	2.18	2.43	2.36	2.60	2.33	2.18
(excld. AFDC)	1.67	1.94	1.89	2.24	2.15	2.08

Electric Department	Year Ended December 31 1979	1978	1977	1976	1975	1974
Electric Revenue (000's)						
Residential	$ 78,140	$ 72,854	$ 64,986	$ 61,498	$ 53,904	$ 45,354
Commercial	63,104	58,985	53,520	50,791	43,884	37,908
Industrial	54,404	48,792	41,783	39,402	33,244	30,858
Other	23,725	22,000	19,651	18,867	15,597	13,440
Electric revenue from our customers	219,373	202,631	179,940	170,558	146,629	127,560
Other electric utilities	37,804	28,676	26,403	18,259	25,496	14,697
Total electric revenue	257,177	231,307	206,343	188,817	172,125	142,257
Electric Expense (000's)						
Fuel used in electric generation	46,999	45,093	44,010	34,247	33,442	25,739
Purchased electricity	31,937	19,337	13,635	18,195	12,212	12,070
Other operation	54,277	47,602	45,011	40,930	35,662	32,177
Maintenance	22,675	19,305	16,339	14,796	14,282	12,390
Depreciation	18,223	16,983	15,333	13,865	12,731	11,977
Taxes–local, state and other	35,172	33,108	31,530	28,543	25,369	22,784
Electric revenue deductions	209,283	181,428	165,858	150,576	133,698	117,137
Operating Income before Federal Income Tax	47,894	49,879	40,485	38,241	38,427	25,120
Federal income tax including regulatory allowance	5,600	9,244	4,041	3,102	5,069	(433)
Operating Income from Electric Operations (000's)	$ 42,294	$ 40,635	$ 36,444	$ 35,139	$ 33,358	$ 25,553
Electric Operating Ratio %	60.6	56.8	57.7	57.3	55.5	57.9
Electric Sales–KWH (000's)						
Residential	1,710,090	1,701,938	1,660,425	1,618,314	1,530,421	1,456,335
Commercial	1,404,931	1,417,624	1,392,023	1,366,094	1,294,816	1,226,333
Industrial	1,579,364	1,517,988	1,431,855	1,384,235	1,284,940	1,346,116
Other	469,135	465,373	454,059	437,097	411,122	379,379
Electric sales to our customers	5,163,520	5,102,923	4,938,362	4,805,740	4,521,299	4,408,163
Other electric utilities	1,526,925	1,445,391	1,453,590	1,187,942	1,864,050	1,182,902
Total electric sales	6,690,445	6,548,314	6,391,952	5,993,682	6,385,349	5,591,065
Electric Customers at December 31						
Residential	254,097	251,645	250,121	249,177	246,613	244,063
Commercial	24,234	24,137	24,023	23,983	23,874	23,827
Industrial	1,394	1,348	1,353	1,371	1,380	1,365
Other	2,374	2,423	2,328	2,271	2,305	2,316
Total electric customers	282,099	279,553	277,825	276,802	274,172	271,571
Electricity Generated and Purchased–KWH (000's)						
Fossil	1,956,599	2,025,645	2,272,182	2,060,186	1,731,723	1,961,453
Nuclear	2,945,721	3,206,313	3,018,305	2,040,746	3,026,894	2,079,539
Hydro	210,353	192,278	222,391	277,010	265,401	234,568
Pumped storage	151,911	133,287	193,340	118,716	98,743	131,311
Less energy for pumping	(217,758)	(189,453)	(283,573)	(180,317)	(148,180)	(192,311)
Other	17,257	1,086	850	2,797	2,198	12,806
Total generated–Net	5,064,083	5,369,156	5,423,495	4,319,138	4,976,779	4,227,366
Purchased	2,051,568	1,579,863	1,400,505	2,106,904	1,888,091	1,836,911
Total electric energy	7,115,651	6,949,019	6,824,000	6,426,042	6,864,870	6,064,277
Electric Generation Costs (000's)						
Fossil	$ 42,116	$ 38,995	$ 40,557	$ 36,901	$ 33,120	$ 30,361
Nuclear	29,943	25,561	22,330	13,485	14,191	7,980
Hydro	1,233	1,229	1,132	973	1,030	1,085
Other	813	57	44	118	63	321
Electric Department Fuel						
Fossil –Total BTU (million)	20,874,198	21,139,146	23,862,599	21,822,976	18,388,874	20,911,993
–Cents per million BTU	152.18	144.27	136.92	137.42	142.18	117.05
Nuclear–Total BTU (million)	31,897,513	35,812,171	37,822,209	23,837,620	33,128,471	22,909,968
–Cents per million BTU	53.81	43.97	38.04	25.69	22.91	11.28
System Net Capability–KW at December 31						
Fossil	443,000	443,000	443,000	452,000	452,000	452,000
Nuclear	470,000	470,000	470,000	470,000	470,000	470,000
Hydro	47,000	47,000	47,000	47,000	47,000	47,000
Other	29,000	29,000	29,000	29,000	29,000	29,000
Purchased	359,000	339,000	338,000	342,000	356,000	347,000
Total system net capability	1,348,000	1,328,000	1,327,000	1,340,000	1,354,000	1,345,000
Net Peak Load–KW	950,000	983,000	987,000	934,000	925,000	880,000
Annual Load Factor–Net %	67.1	63.9	62.0	63.8	61.7	63.3

Gas Department	1979	1978	1977	1976	1975	1974
Gas Revenue (000's)						
Residential	$ 5,553	$ 5,096	$ 4,828	$ 4,426	$ 3,964	$ 3,809
Residential spaceheating	85,269	74,425	66,900	63,974	52,584	47,758
Commercial	25,653	20,535	18,057	16,848	13,593	12,533
Industrial	18,657	13,891	12,014	11,900	9,167	8,583
Municipal and other	5,395	4,584	3,998	3,879	3,170	2,780
Total gas revenue	140,527	118,531	105,797	101,027	82,478	75,463
Gas Expense (000's)						
Purchased natural gas	89,804	71,109	62,086	56,192	42,247	37,342
Other operation	16,519	15,810	15,072	14,921	13,310	11,492
Maintenance	6,246	5,768	5,078	4,510	4,500	4,757
Depreciation	4,889	4,641	5,140	4,194	4,137	3,978
Taxes–local, state and other	12,187	10,545	10,089	9,729	8,715	7,937
Gas revenue deductions	129,645	107,873	97,465	89,546	72,909	65,506
Operating Income before Federal Income Tax	10,882	10,658	8,332	11,481	9,569	9,957
Federal income tax	1,314	1,966	147	2,212	914	1,221
Operating Income from Gas Operations (000's)	$ 9,568	$ 8,692	$ 8,185	$ 9,269	$ 8,655	$ 8,736
Gas Operating Ratio %	80.1	78.2	77.7	74.9	72.8	71.0
Gas Sales–Therms (000's)						
Residential	13,149	13,465	13,833	14,404	14,328	14,903
Residential spaceheating	247,389	255,951	252,923	275,582	249,224	263,290
Commercial	83,248	82,451	77,751	86,400	78,217	84,872
Industrial	65,995	63,709	59,956	72,847	65,760	73,926
Municipal	16,962	17,748	15,975	18,598	16,705	16,696
Total gas sales	426,743	433,324	420,438	467,831	424,234	453,687
Gas Customers at December 31						
Residential	35,258	38,013	39,977	40,892	41,437	42,884
Residential spaceheating	159,916	154,366	152,856	153,583	153,848	151,154
Commercial	12,600	12,092	11,268	11,475	11,390	11,478
Industrial	821	759	746	757	756	767
Municipal	1,047	1,084	989	936	957	1,024
Total gas customers	209,642	206,314	205,836	207,643	208,388	207,307
Gas–Therms (000's)						
Purchased for reforming and mixing				9,830	23,160	31,518
Purchased for resale	436,956	449,904	428,811	478,935	421,252	438,494
Other	16,388	13,178	10,123	7,911	7,019	7,063
Total gas available	453,344	463,082	438,934	496,676	451,431	477,075
Cost of gas per therm	20.63¢	15.26¢	14.43¢	11.37¢	10.19¢	8.49¢
Total Daily Capacity–Therms at December 31						
Mixed gas					269,000	410,844
Straight natural gas	4,164,000	4,164,000	4,164,000	4,164,000	3,895,000	3,871,448
Total daily capacity	4,164,000	4,164,000	4,164,000	4,164,000	4,164,000	4,282,292
Maximum daily sendout–Therms	3,380,670	3,183,678	3,578,468	3,497,861	3,041,070	3,192,631
Degree Days (Customer Billing)						
For the period	6,981	7,021	6,726	6,905	6,211	6,808
Percent (warmer) colder than normal	4.3	4.5	(0.1)	1.6	(7.2)	1.3

Steam Department

Year Ended December 31	1979	1978	1977	1976	1975	1974
Steam Revenue (000's)						
Commercial	$ 5,873	$ 6,087	$ 6,352	$ 6,401	$ 5,668	$ 5,419
Industrial	11,833	10,732	10,455	9,799	9,862	9,396
Municipal and other	2,282	2,291	2,197	2,183	1,807	1,506
Total steam revenue	19,988	19,110	19,004	18,383	17,337	16,321
Steam Expense (000's)						
Fuel used in steam generation	14,072	13,047	12,983	12,114	12,826	10,954
Other operation	1,468	2,273	2,411	1,826	1,657	687
Maintenance	1,208	1,173	955	900	918	819
Depreciation	591	581	580	562	546	536
Taxes—local, state and other	2,557	2,282	2,257	2,230	2,073	1,689
Steam revenue deductions	19,896	19,356	19,186	17,632	18,020	14,685
Operating Income before Federal Income Tax	92	(246)	(182)	751	(683)	1,636
Federal income tax	(168)	(168)	(330)	51	(688)	363
Operating Income from Steam Operations (000's)	$ 260	$ (78)	$ 148	$ 700	$ 5	$ 1,273
Steam Operating Ratio %	83.8	86.3	86.0	80.7	88.8	76.3
Steam Sales—Lbs. (000's)						
Commercial	789,364	898,904	933,609	1,041,415	980,324	1,160,122
Industrial	1,682,780	1,718,565	1,682,033	1,738,391	1,839,402	2,127,837
Municipal	320,026	346,031	334,645	367,553	325,727	334,463
Total steam sales	2,792,170	2,963,500	2,950,287	3,147,359	3,145,453	3,622,422
Steam Customers at December 31						
Commercial	221	238	254	271	281	292
Industrial	70	70	74	77	77	78
Municipal	27	31	32	32	31	31
Total steam customers	318	339	360	380	389	401
Steam Produced—Lbs. (000's)						
Produced by steam department	1,391,245	1,353,053	1,194,132	1,408,029	1,387,363	1,532,246
By-product steam from electric department	1,736,744	1,987,638	2,133,853	2,193,283	2,344,693	2,588,120
Total steam produced	3,127,989	3,340,691	3,327,985	3,601,312	3,732,056	4,120,366
Steam Department Fuel						
Total BTU (million)	5,378,454	5,705,943	5,548,290	6,022,360	6,230,767	6,807,500
Cents per million BTU	271.28	226.21	232.60	203.35	203.08	196.31

Rate Increases

Granted

Class of Service	Effective Date of Increase	Amount of Increase (Annual Basis) (000's)	Percent Increase	Rate of Return on Rate Base Authorized	Rate of Return on Equity Authorized
Electric	October 23, 1974	$17,992	16.0%	8.83%	13.19%
	April 20, 1976	11,002	7.9	9.35	13.50
	November 11, 1977	10,186	5.8	9.31	12.80
	February 18, 1978	3,000	1.6	9.31	12.80
	May 2, 1979	17,699	8.2	9.89	13.40
Gas	October 23, 1974	4,854	7.6	8.42	12.09
	April 20, 1976	4,983	6.3	9.35	13.50
	November 11, 1977	2,536	2.4	9.31	12.80
	February 2, 1978	678	.6	9.31	12.80
	May 2, 1979	8,109	6.6	9.89	13.40
Steam	April 15, 1975	2,475	12.0		
	December 15, 1979	2,895	15.0		

Pending Requests

Class of Service	Date of Filing	Amount (000's)	Percent
Electric	August 24, 1979	$40,789	17.0%
Gas	August 24, 1979	8,347	4.4

Directors

Theodore J. Altier
Chairman of the Board and Treasurer, Altier & Sons Shoes, Inc.

Keith W. Amish*
Executive Vice President, Rochester Gas and Electric Corporation

Paul W. Briggs*
President, Rochester Gas and Electric Corporation

Wilmot R. Craig‡
Former Chairman of the Board, Lincoln First Banks Inc.

E. Kent Damon†‡√
Vice President and Secretary, Xerox Corporation

Francis E. Drake, Jr.*√
Chairman of the Board and Chief Executive Officer, Rochester Gas and Electric Corporation

J. Wallace Ely*†
Chairman of the Board, Security New York State Corporation

Walter A. Fallon√
Chairman of the Board and Chief Executive Officer, Eastman Kodak Company

Ernest J. Howe*†‡
Chairman of the Executive and Finance Committee, Rochester Gas and Electric Corporation

Daniel G. Kennedy*
Partner, Nixon, Hargrave, Devans & Doyle

Theodore L. Levinson
President and Chief Executive Officer, Star Supermarkets, Inc.

Paul A. Miller
Former President, Rochester Institute of Technology

Edward J. Nelson
Former President, Rochester Gas and Electric Corporation

William S. Vaughn*†‡
Former Chairman of the Board, Eastman Kodak Company

William G. vonBerg*†√
Chairman of the Board and Chief Executive Officer, Sybron Corporation

*Member of the Executive and Finance Committee of the Board of Directors
†Member of the Audit Committee of the Board of Directors
‡Member of the Salary Review Committee of the Board of Directors
√Member of the Nominating Committee of the Board of Directors

Officers

Francis E. Drake, Jr.
Chairman of the Board and Chief Executive Officer
Age 64, Years of Service, 42

Paul W. Briggs
President
Age 57, Years of Service, 34

Keith W. Amish
Executive Vice President
Age 56, Years of Service, 32

Joseph J. Hartman
Vice President, Gas and Transportation
Age 55, Years of Service, 33

John L. Kennedy
Vice President, Rates and Governmental Affairs
Age 61, Years of Service, 39

John E. Maier
Vice President, Employee Relations
Age 52, Years of Service, 32

Richard J. Rudman
Vice President, Electric Transmission and Distribution
Age 52, Years of Service, 34

Harry G. Saddock
Vice President, Electric System Planning and Operation
Age 50, Years of Service, 29

Mario Silvestrone
Vice President, Consumer Services, Public Affairs and Purchasing
Age 56, Years of Service, 29

Leon D. White, Jr.
Vice President, Electric and Steam Production
Age 60, Years of Service, 42

Dean W. Caple
Secretary and Treasurer
Age 56, Years of Service, 31

Francis A. Sullivan, Jr.
Controller
Age 56, Years of Service, 29

Robert W. Ball
Assistant Treasurer
Age 63, Years of Service, 41

David C. Heiligman
Assistant Secretary
Age 39, Years of Service, 16

Robert C. Henderson
Assistant Controller
Age 39, Years of Service, 16

Stephen Kowba
Assistant Controller
Age 60, Years of Service, 29

John M. Kuebel
Auditor
Age 44, Years of Service, 15

Shareholder Inquiries

Communications regarding stock transfer requirements, lost certificates or dividend payments may be directed to Lincoln First Bank, N.A.

Other inquiries should be directed to D. W. Caple, Secretary and Treasurer at the Company.

The Company will provide, without charge, a copy of the Annual Report on Form 10-K filed with the Securities and Exchange Commission with respect to fiscal year 1979, upon written request of any shareholder addressed to the Secretary.

Principal Office
89 East Avenue
Rochester, New York 14649
(716) 546-2700

Financial Contact
Paul W. Briggs
President

Annual Meeting
May 21, 1980
At Rochester, New York

New York Stock Exchange Symbol
Rochester Gas and Electric Corporation
Common Stock–RGS

Transfer and Dividend Disbursing Agent
Lincoln First Bank, N.A.
Stock Transfer Department
Post Office Box 1250
Rochester, New York 14603

Registrar
Security Trust Company of Rochester
One East Avenue
Rochester, New York 14638

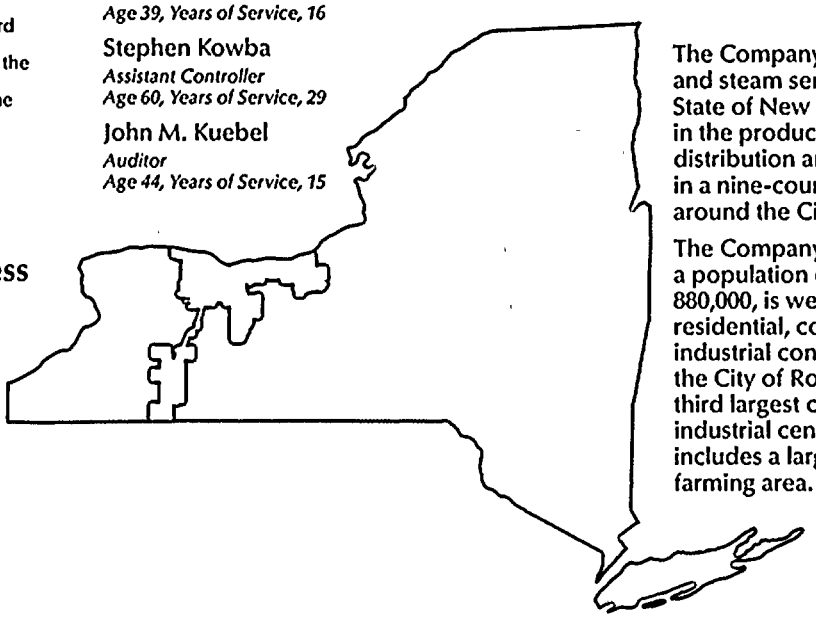
Co-transfer Agent
Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015

Co-registrar
The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza
New York, New York 10015

Agent for Automatic Dividend Reinvestment Plan
Lincoln First Bank, N.A.
Automatic Dividend Reinvestment Service
Post Office Box 1507
Rochester, New York 14603

Bond Trustee and Paying Agent
Bankers Trust Company
Post Office Box 318
Church Street Station
New York, New York 10015

RG&E Service Area/Business



The Company supplies electric, gas and steam service wholly within the State of New York, and is engaged in the production, transmission, distribution and sale of these services in a nine-county area centering around the City of Rochester.

The Company's territory, which has a population of approximately 880,000, is well diversified among residential, commercial and industrial consumers. In addition to the City of Rochester, which is the third largest city and a major industrial center in the State, it includes a large and prosperous farming area.